VOL 10 No 4 APRIL 1980

SURVEY of Current Affairs

Government and Administration

The Civil List 91
By-election and State of the Parties 91
Northern Ireland Constitutional Conference 92
Official Interception of Communications 92
Immigration Rules 93
Recent Legislation 94

External Affairs and Defence

Defence 96
The Brandt Report 101
Expenditure on Overseas Aid 105
Britain and the Olympic Games 107
Foreign Secretary's Visit to Romania 108
The European Community and ASEAN 109
Gibraltar 110

Economic and Scientific Affairs

The Budget 1980-81 112
Public Expenditure Plans 123
Monetary Policy 131
Shorter Notes 132
National Income and Expenditure 1979; Comptroller and Auditor General; Industrial Policy for Northern Ireland; Measures to Aid Small Firms; Export Awards for Smaller Firms; Prestel; Channel Tunnel; European Community Support for Data Processing; Microelectronics Development Programme for Schools and Colleges; Report on Biotechnology

Social and Cultural Affairs

Social Security Benefits 137

Documentation

142

Published for British Information Services by
Her Majesty's Stationery Office, London
Annual subscription including postage and index £14.22

The *Survey of Current Affairs* is produced for British Information Services overseas, but in response to requests has also been made available in Britain. Subscription and distribution inquiries should be addressed to Her Majesty's Stationery Office, P.O. Box 569, London SE1 9NH, and editorial inquiries to Reference Division, Central Office of Information, Hercules Road, Westminster Bridge Road, London SE1 7DU. Although the material is Crown Copyright, it may be reproduced without special permission.
Other documents produced by Reference Division if not on sale through Her Majesty's Stationery Office, may be obtained direct from Reference Division on payment of a small charge.

GOVERNMENT AND ADMINISTRATION

The Civil List

The sums to be paid from the Civil List in 1980 to finance expenditure incurred by the Royal Family in carrying out their official duties have been announced.

The amounts payable from central funds to the Royal Family in the calendar years 1979 and 1980 were set out by the Treasury on 28 March (*Hansard*, Vol 981, No 148, written answers, cols 597-8). The funds are made available under the Civil List Acts to provide for expenses incurred by members of the Royal Family in the course of their official duties. All increases for 1980 are directly linked to the increased costs of carrying out these duties; the figures make provision for price increases consistent with those for cash limits on central government expenditure generally. For 1980 the Queen's Civil List was estimated to be £2,716,300 (compared with £2,281,300 in 1979). The amounts for other members of the Royal Family for 1980 are as follows: Queen Elizabeth, the Queen Mother, £244,000; the Duke of Edinburgh, £135,000; Princess Anne, £85,000; Prince Andrew, £20,000; Princess Margaret, £82,000; Princess Alice, Duchess of Gloucester, £35,000; the Duke of Gloucester, £65,000; the Duke of Kent, £89,000; Princess Alexandra, £85,000, and Princess Alice, Countess of Athlone, £9,000. The sum total of these amounts is £3,565,300, compared with the 1979 total of £2,996,600.

The amounts shown combine sums directly payable from the Consolidated Fund with supplements provided by the Royal Trustees, which are subject to House of Commons approval. No special provision is made for the Queen's eldest son, Prince Charles, who is entitled to the net revenues of the Duchy of Cornwall, though at present he surrenders half to the nation. The next eldest son, Prince Andrew, reached the age of 18 in February 1978 and became eligible for a sum of £20,000 in a full year. However, he will receive only £4,500 of his allocation for 1980, the balance to be accumulated by the Royal Trustees. The sums payable in respect of the last four members of the Royal Family listed above (£248,000), are matched by payments made into the Consolidated Fund by the Queen.

By-election and State of the Parties

Details of the result of a recent by-election and the present state of the parties in the House of Commons are given below.

The Conservative Party retained the seat at Southend East in a parliamentary by-election on 13 March. The seat became vacant when its holder, Sir Stephen McAdden, died in December 1979. The Conservative candidate, Mr Edward Taylor, won by a majority of 430. The results were as follows:

E. Taylor (Conservative)	13,117
C. George (Labour)	12,687
D. Evans (Liberal)	8,939

Four other candidates, who between them received 894 votes, all lost their deposits; 62·5 per cent of the electorate voted.

State of the Parties

The state of the parties in the House of Commons is now as follows:

Conservative	337
Labour	267
Liberal	11
Scottish National	2
Plaid Cymru (Welsh Nationalist)	2
Official Unionist (Northern Ireland)	5
Democratic Unionist (Northern Ireland)	3
United Ulster (Northern Ireland)	1
Ulster Progressive Unionist (Northern Ireland)[1]	1
Independent Socialist (Northern Ireland)	1
Independent (Northern Ireland)	1
TOTAL	631

The four remaining seats are held by the Speaker of the House of Commons and his three deputies who do not vote except in their official capacity in the event of a tie. The Government majority over all other parties is 43.

[1]Mr James Kilfedder was elected as Ulster Unionist member at the general election in May 1979 but resigned from the party in January 1980 to form the Ulster Progressive Unionist Party.

Northern Ireland Constitutional Conference

A statement on the outcome of the constitutional discussions with political parties in Northern Ireland has been made by the Secretary of State for Northern Ireland in which he referred to a 'valuable dialogue' between the Government and the parties present and the acceptance by all participants of principles for the transfer of powers to elected representatives in the Province. The Government is preparing further proposals for wide discussion and consultation.

Secretary of State's Statement

The talks began in Belfast on 7 January and were adjourned on 24 March. They were attended by representatives of the Alliance, Ulster Democratic Unionist, and Social Democratic and Labour parties; the invitation extended to the Official Unionist Party was declined. Answering questions in the House of Commons on 3 April (*Hansard*, Vol 982, No 152, cols 625-30), Mr Humphrey Atkins, Secretary of State for Northern Ireland, said that the conference had considered each of 14 items on the agenda. All the participants agreed that it would be an appropriate time for him to take stock and report to the Cabinet. As was made clear in the working paper published last November (see pp 359-60, 1979), the aim of the conference from the outset had been to 'identify the highest level of agreement on how powers of government might be transferred to elected representatives in Northern Ireland'. The conference was part of a continuing process to find new arrangements acceptable to both parts of the community. It had led to a valuable dialogue between the Government and the Northern Ireland parties attending; it had clarified the parties' views; and it had increased understanding on both sides of what the Government's aims must be and the problems that had to be solved. Perhaps even more significantly, it had revealed an acceptance by all concerned of the principles laid down in the working paper for the transfer of powers. The Government was now considering the progress of the conference so far and would be putting forward proposals for the fullest discussion and consultation.

Official Interception of Communications

A White Paper setting out the principles and procedures of official interception of telephone calls and mail in Great Britain, which is carried out on behalf of the police, the Customs and Excise Board, and the security service, was published on 1 April.[1] In a statement to the House of Commons the Home Secretary said that the practice of official interception continued to be tightly controlled, but that, while legislation to provide new statutory safeguards was not considered necessary, the Government proposed to appoint a senior judge to undertake a continuous independent check on the control of interception.

[1] *The Interception of Communications in Great Britain.* Cmnd 7873. HMSO, £1. ISBN 0 10 178730 8.

The White Paper

The White Paper brings up to date the account of the procedure and conditions of official interception given in the Report of the Committee of Privy Counsellors under the chairmanship of Lord Birkett in 1957. While minor changes of practice have been introduced in the intervening years, the essential principles and procedures laid down in the Birkett Report are closely followed today.

The purposes of intercepting communications continue to be the detection of serious crime and the safeguarding of the security of the State. Interception may be undertaken only when authorised by the Home Secretary or by the Secretary of State for Scotland. When issuing warrants for interception on behalf of the police, the appropriate minister must be assured that the offence is serious, that normal methods of investigation have failed, and that interception is likely to lead to a conviction. The same requirements apply to customs officers, but in the case of the security service evidence is required of a subversive, terrorist or espionage activity likely to injure the national interest.

Applications for warrants are normally made in writing; each warrant runs for a period of two months and may be renewed only with the minister's personal authority. Police warrants can be renewed for one month at a time; Customs and Excise warrants for two months; and those for the security service for six months.

Interception is carried out by the Post Office, and its findings may be used only for assisting the organisations concerned to carry out their investigations.

The uses to which interception is put remain very much the same as those detailed in the Birkett Report. For the police, the use of telephone interception is 'an indispensable tool in the investigation and prevention of serious crime', and without its use the effectiveness of the police would be substantially diminished. In the last four years the value of property recovered by the police as a direct result of telephone interception has run into millions of pounds. The use of telephone interception by Customs and Excise has played an essential part in the detection of narcotic drug smuggling. In 1978 interceptions were responsible for helping to recover 62 per cent of the heroin seized and 56 per cent of cocaine. For security reasons the White Paper does not evaluate the successful use of warrants by the security service, but states that over the years a number of serious terrorist attacks would not have been countered without the use of interception.

In order to allay present public concern that interception is now practised on a much greater scale than at the time of the Birkett Report, the White Paper discloses figures of the number of warrants authorised for interception in recent

years. However, the Government does not propose to disclose such figures regularly in future. In 1958 the number of warrants authorised was 238 (129 telephone and 109 letter); in 1968 there were 426 (343 telephone and 83 letter); and during the last five years the numbers were as follows (figures for Scotland are available only from 1967):

	Telephone	*Letter*	*Total*
1975	509	93	602
1976	451	62	513
1977	459	87	546
1978	470	44	514
1979	467	52	519

Home Secretary's Statement

In a statement to the House of Commons on 1 April (*Hansard*, Vol 982, No 150, cols 205-20), the Home Secretary, Mr William Whitelaw, said that, while the interception of communications was 'an interference with the freedom of the individual in a democratic society', it was justified when carried out by the properly constituted authorities provided that its aims and consequences were to help 'protect the law-abiding citizen from the threats of crime and violence and the fabric of democracy from the menaces of espionage, terrorism and subversion'.

Information about interception in Northern Ireland had been excluded from the White Paper because the need to be able to combat terrorism made it undesirable to disclose any details. Mr Whitelaw assured the House that the principles set out in the White Paper were observed in Northern Ireland 'subject only to the overriding requirements for dealing with terrorism'.

Referring to the figures of the number of interceptions disclosed in the White Paper, Mr Whitelaw said that he hoped they would provide reassurance following 'allegations that interception is now practised on a vastly wider scale than at the time of the Birkett Report'. The change in the balance between telephone and letter interception reflected the greatly increased use of the telephone during the last 20 years. Given the very considerable growth in serious crime, and in particular the development of the terrorist threat during recent years, the figures demonstrated that the use of interception continued to be tightly controlled.

On the question of introducing legislation to control interception, Mr Whitelaw said that the Government had decided against this. The practice of interception depended for its effectiveness and value upon being carried out in secret, and could not therefore be subject to the normal processes of parliamentary control. Its acceptability in a democratic society depended on its being 'subject to ministerial control, and on the readiness of the public and their representatives in Parliament to repose their trust in the Ministers concerned to exercise that control responsibly and with a right sense of balance between the value of interception as a means of protecting order and security and the threat which it may present to the liberty of the subject'. The Government had come to the clear conclusion that the procedures, conditions and safeguards described in the White Paper ensured 'strict control of interception by Ministers', were 'a good and sufficient protection for the liberty of the subject, and would not be made significantly more effective ... by being embodied in legislation'.

However, a continuous independent check on the practice of official interception was desirable, and the Government had therefore decided to appoint a senior judge to carry out such a review. The terms of reference would be to review 'the purposes, procedures, conditions and safeguards governing the interception of communications', and the judge would report to the Prime Minister. He would have the right of access to papers and the right to request additional information from the departments and organisations concerned. His first report, dealing with the arrangements set out in the White Paper, would be published, but subsequent reports, on the detailed operation of the arrangements, would not. However, Parliament would be informed of any findings of a general nature or of any changes that were to be made.

Immigration Rules

Parliament has approved changes in the rules governing immigration into Britain.

Principal Changes

The new immigration rules which are laid down by the Home Secretary under the Immigration Act 1971 to regulate the entry into and stay of people in the United Kingdom, were approved at the end of a debate in the House of Commons on 10 March (*Hansard*, Vol 980, Nos 134 and 135, cols 1010-106). They are set out fully in *Statement of Changes in Immigration Rules*[1] which was published on 20 February and took effect from 1 March. In a statement in the House of Commons on the publication of the rules (*Hansard*, Vol 979, No 122, cols 187-9) the Home Secretary, Mr William Whitelaw, said that the new rules followed broadly the White Paper (Cmnd 7750) published in November 1979 (see pp 360-4, 1979) which had been debated and approved in the House of Commons. In the light of what was said in debates in both Houses of Parliament several changes had been made, the most significant of which were as follows.

Husbands and Fiancés

Mr Whitelaw reminded the House that he had announced changes in the Government's proposals regarding husbands and fiancés. It remained the case that a husband or fiancé would be ineligible to enter or remain in Britain if the marriage had been contracted primarily in order to obtain admission to the United Kingdom or if one of the parties had no intention of living permanently with the other or if the parties to the

[1]HMSO, £2·25. ISBN 0 10 239480 6.

marriage had not met. But where there was no reason to believe this, an entry clearance would be issued to the husband or fiancé provided that the woman was a citizen of the United Kingdom and Colonies who was born in Britain herself or one of whose parents was born there. The latter addition brought within the rules those cases which the Government had first proposed should be dealt with by administrative discretion. There remained scope for discretion where a woman's connection with Britain was very substantial (for example, by descent from people in Crown Service overseas) but where she did not meet the formal requirements.

Dependants

The Government had undertaken to reconsider the changes proposed in the qualifications for entry of elderly parents and grandparents. There seemed to be force in the argument that there would be great difficulty in some circumstances in showing that applicants were both being supported by children in the United Kingdom and having a standard of living below that of their own country. The Home Secretary had therefore removed the latter requirement. It would still apply, as at present, to more distant relatives, and to parents and grandparents under the age of 65, except widowed mothers.

Working Dependants

It had also been argued that the Government's proposals to prohibit from working the wives and children of students and of people allowed to stay in approved employment could severely affect the prospects of students and unnecessarily deter people whose scarce qualifications or skills made their presence desirable. The Government accepted this argument and the rules would not be changed on this point.

'Au Pairs'

The Government's proposals for changes in the provisions relating to 'au pair' girls and working holidaymakers set an upper age limit of 25. It had been decided to relax this slightly to take account of those engaged in studies from their early to mid-twenties. The age limit would now be 27.

Remaining for Employment

The new rules covered applications to remain for employment from those admitted as visitors or students or for some other temporary purpose. The Government was ensuring that nurses and midwives were not debarred from employment on completion of their training at hospitals in Britain provided that the training was not financed by an international scholarship agency or by their home government.

Writers and Artists

The Government undertook to look again at the proposed condition of stay of writers and artists, which would have prohibited them from taking employment or engaging in any business or profession. It had decided to substitute a condition which would allow them to engage, with consent, in business. Consent would be given for business which was part of an artist's or writer's profession, such as the holding of an exhibition.

[For a full account of immigration control see reference paper *Immigration into Britain*, R5976/77, which will be revised shortly to take account of the changes in the immigration rules, including the work permit scheme, described above and on pp 360-4, 1979.]

Recent Legislation

The public Acts of Parliament passed between 14 January and 3 April when the Easter adjournment started are listed below. Two Acts introduced by private members are indicated by an asterisk.

Bail Etc (Scotland) Act 1980. Amends the law relating to bail in Scotland and removes the obligation on sheriff and district courts to sit on Saturdays. Royal Assent: 31.1.80. Ch 4, ISBN 0 10 540480 2, HMSO, £1·25.

Bees Act 1980. Makes provision for the control of pests and diseases affecting bees. Royal Assent: 20.3.80. Ch 12, ISBN 0 10 541280 5, HMSO, £1.

**Betting, Gaming and Lotteries (Amendment) Act 1980.* Increases from eight to ten the number of races that can be held at a greyhound race meeting. Royal Assent: 31.3.80. Ch 18, ISBN 0 10 541880 3, HMSO, 20p.

Child Care Act 1980. Consolidates certain legislation relating to the care of children by local authorities and voluntary organisations and certain other legislation relating to the care of children. Royal Assent: 31.1.80. Ch 5, ISBN 0 10 540580 9, HMSO, £3·10.

Competition Act 1980 (see pp 340-1, 1979). Royal Assent: 3.4.80. Ch 21, ISBN 0 10 542180 4, HMSO, £2·25.

Consolidated Fund Act 1980. Gives parliamentary authority for sums to be issued out of the Consolidated Fund to meet the Government's expenditure requirements. Royal Assent: 20.3.80. Ch 14, ISBN 0 10 541480 8, HMSO, 20p.

Education Act 1980 (see p 349, 1979). The original provisions of this legislation were amended so that local authorities will continue to provide free school transport under specified conditions. Royal Assent: 3.4.80. Ch 20.[1]

Foster Children Act 1980. Consolidates certain legislation relating to foster children in England and Wales. Royal Assent: 31.1.80. Ch 6, ISBN 0 10 540680 5, HMSO, £1·50.

Gaming (Amendment) Act 1980. Amends the Gaming Act 1969, so as to increase the maximum permitted figure for combined prizes of games of linked bingo. Royal Assent: 20.3.80. Ch 8, ISBN 0 10 540880 8, HMSO, 20p.

[1]Publication details of this Act were not available at the time of going to press.

Highlands and Islands Air Services (Scotland) Act 1980. Makes further provision for financial assistance in connection with air services serving the Highlands and Islands of Scotland. Royal Assent: 3.4.80. Ch 19, ISBN 0 10 541980 X, HMSO, 20p.

National Health Service (Invalid Direction) Act 1980. Invalidates legislation passed in 1979 under section 86 of the National Health Service Act 1977, appointing commissioners to manage the affairs of the Lambeth, Southwark and Lewisham area health authority. Royal Assent: 20.3.80. Ch 15, ISBN 0 10 541580 4, HMSO, 20p.

National Heritage Act 1980. Establishes a National Heritage Fund to provide financial assistance for the acquisition, maintenance and preservation of land, buildings and objects of outstanding historic and other interest and makes new arrangements for accepting property in satisfaction of capital transfer tax and estate duty. Royal Assent: 31.3.80. Ch 17, ISBN 0 10 541780 7, HMSO, £1·25.

New Hebrides Act 1980. Makes provision relating to the attainment by the New Hebrides of independence within the Commonwealth (see pp 5-7). Royal Assent: 20.3.80. Ch 16, ISBN 0 10 541680 0, HMSO, £1.

Papua New Guinea, Western Samoa and Nauru (Miscellaneous Provisions) Act 1980. Makes provision relating to the attainment by Papua New Guinea of independence within the Commonwealth in 1975, and to the Commonwealth membership of Western Samoa and Nauru. Royal Assent: 31.1.80. Ch 2, ISBN 0 10 540280 X, HMSO, 50p.

Petroleum Revenue Tax Act 1980. Makes provision for payments of petroleum revenue tax in advance of assessment for liability. Royal Assent: 31.1.80. Ch 1, ISBN 0 10 540180 3, HMSO, £1.

Police Negotiating Board Act 1980. Establishes a Police Negotiating Board in place of the Police Council. Royal Assent: 20.3.80. Ch 10, ISBN 0 10 541080 2, HMSO, 50p.

Protection of Trading Interests Act 1980 (see p 379, 1979). Royal Assent: 20.3.80. Ch 11, ISBN 0 10 541180 9, HMSO, £1·25.

**Representation of the People Act 1980.* Enables a spouse of a member of the armed forces resident in Britain to register, for electoral purposes, either as a Service voter or as a civilian voter, and enables the electoral register to be amended so as to include the name of a qualified elector who has been omitted. Royal Assent: 31.1.80. Ch 3, ISBN 0 10 540380 6, HMSO, 50p.

Reserve Forces Act 1980. Consolidates certain legislation relating to the reserve and auxiliary forces and repeals certain obsolete legislation. Royal Assent: 20.3.80. Ch 9, ISBN 0 10 540980 4, HMSO, £3·75.

Residential Homes Act 1980. Consolidates certain legislation relating to the running of residential homes for the disabled, old or mentally disordered, and to the provision by district councils of meals and recreation for the elderly. Royal Assent: 20.3.80. Ch 7, ISBN 0 10 540780 1, HMSO, £1·25.

Slaughter of Animals (Scotland) Act 1980. Consolidates certain legislation relating to slaughterhouses, knackers' yards and the slaughter of animals in Scotland. Royal Assent: 20.3.80. Ch 13, ISBN 0 10 541380 1, HMSO, £1·25.

EXTERNAL AFFAIRS AND DEFENCE

Defence

Britain's expenditure on defence will rise by 3·5 per cent in real terms in 1980-81, exceeding the 3 per cent a year target endorsed by the members of the North Atlantic Treaty Organisation (NATO), and will continue to rise by 3 per cent or more in each of the three following years. This reflects the British Government's wholehearted commitment to NATO, and its determination that Britain should play a full part in contributing to Western security.

Details of Britain's defence policy are contained in the annual statement on the defence estimates published as a White Paper on 2 April.[1] Among other things, this points to the situation in Afghanistan (see pp 50-5 and 73-4) as a reminder that continued peace, security and freedom cannot be taken for granted or enjoyed free of charge. The Soviet Union's invasion of that country and its activities elsewhere show that its leadership is prepared to use its military power where it believes that the prospective gains outweigh the risks. Against this background, the Government aims to restore Britain's defences to the level needed to provide the best guarantee of security, using the most economical means available in doing so. It recognises that defence expenditure cannot be considered in isolation from Britain's general economic condition, but sees it not as an alternative to spending on public and social services, but as an 'essential precondition for them – or at least for . . . any assurance of enjoying their fruits'.

The Context of Defence Policy

Britain's defence policy, the White Paper states, is a response to potential threats to the country's security. The gravest of these is posed by the military forces of the Soviet Union and its Warsaw Pact allies which, if not counter-balanced, could be used directly in a military confrontation with NATO or indirectly to challenge the broader political and economic interests of the West worldwide.

[1]*Defence in the 1980s. Statement on the Defence Estimates 1980.* Vol I, Cmnd 7826-I, HMSO, £4·50. ISBN 0 10 178260 8. Vol II (Defence Statistics), Cmnd 7826-II, HMSO, £4. ISBN 0 10 178261 6.

The Warsaw Pact

Western assessments indicate that Soviet military expenditure accounts for between 11 and 13 per cent of gross national product, and that between 1970 and 1978, while NATO expenditure was falling, it rose in real terms by about 4 per cent annually. Much of this expenditure has been devoted to the production of new equipment – some 42 per cent in 1978, for example, compared with 23 per cent and 18 per cent by Britain and the United States respectively – and has resulted in considerable quantitative and qualitative force improvements. The extensive Soviet research and development programme of the last decade has in many areas eroded the technological lead which NATO once enjoyed.

The force improvements, the White Paper states, have extended over the whole range of weapon systems. Thus the Soviet Union has achieved a rough parity with the United States in strategic nuclear capability and has the advantage over NATO in theatre nuclear weapons – particularly in longer-range systems where it has been deploying the most modern weapons such as the SS-20 missile and the Backfire bomber. The Soviet navy has been strengthened by major new classes of warship, such as the Kiev class aircraft carrier, and has introduced new nuclear-powered submarines at more than twice the rate of NATO over the past decade. In the key area of central Europe, in addition to introducing new tanks, aircraft, and other weapons, the Warsaw Pact has always had more forces than NATO, and currently enjoys a superiority of 2·8 to 1 in main battle tanks and in artillery and of 2·3 to 1 in tactical aircraft. Similarly, in the eastern Atlantic it has a superiority of 1·5 to 1 in both surface ships and submarines, while NATO has only a slight advantage in tactical aircraft. In addition, unlike NATO, the report points out, the Soviet Union has a major capability for offensive chemical warfare (see p 100).

Whatever motives lie behind Soviet military growth, the White Paper continues, Soviet forces are very much larger than those required for defence alone. NATO has to ensure that the Soviet Union could never expect safely to use them to defeat NATO in a direct military encounter or to influence Western domestic or international policies. There is no alternative, therefore, but to enhance NATO's defensive forces to ensure the maintenance of deterrence.

NATO Policy and Strategy

The British Government, the White Paper emphasises, is wholeheartedly committed to NATO and is determined to pull its weight in meeting the Alliance's requirements. NATO provides each of its members with far greater security than any could achieve alone, its key provision being that an attack on one is an attack on all. While the establishment of a safer and more co-operative relationship with Warsaw Pact countries is an important objective of the Alliance, NATO's primary task is to provide collective defence to deter aggression and to resist it effectively if it takes place.

The NATO strategy combines forward defence with flexible response, the former requiring the possession of forces capable of mounting a robust conventional defence to deny an aggressor easy or rapid capture of territory or other major assets; and the latter being designed to provide a range of options from which to choose in making an appropriate military response to aggression, these extending from a limited conventional response through to a full-scale strategic nuclear strike. The overall aim is to make it very clear to any potential aggressor that it would run a high risk of suffering a degree of damage which no objective could justify. The strategy depends, therefore, upon NATO's having the necessary strength in each element of the 'triad' of conventional, theatre nuclear and strategic nuclear forces, and the British Government fully supports the improvements now planned for these forces (see below and pp 10-14). It has also endorsed the Long-Term Defence Programme adopted by the Alliance in 1978 to effect improvements in ten priority areas in which collective action is needed to make the most efficient use of Alliance resources (see pp 251, 1978).

Arms Control

In spite of the Soviet invasion of Afghanistan, Britain, together with its NATO allies, believes that efforts should continue to secure balanced, practical and verifiable arms control agreements with a view to achieving greater stability and greater prospects of peace. It also believes that it is not realistic to pursue such agreements from a position of inferiority; that arms control policy and the defence effort are complementary.

The Government hopes that the second Strategic Arms Limitation Talks agreement (SALT II – see p 187, 1979) will be ratified in due course, holding the view that its provisions codifying the existing strategic nuclear balance between the superpowers will bring a valuable degree of predictability and hence stability to strategic planning. It also supports the proposals agreed by NATO in December 1979 for longer-range theatre nuclear forces arms control (see pp 10-14); and hopes that Western proposals tabled at Vienna in December 1979 will provide a decisive impetus towards the early attainment of a phase one agreement on Mutual and Balanced Force Reductions, and eventually lead to a full agreement providing for reductions to manpower strengths on the basis of parity in central Europe. In addition, it intends to work with its allies for militarily significant and verifiable confidence-building measures at the Madrid follow-up meeting of the Conference on Security and Co-operation in Europe (CSCE) in November 1980.

Britain's Contribution to NATO

Britain's military contribution to NATO is concentrated in four main areas. In addition Britain makes an important contribution to NATO's European Command's strategic reserve and other specialist reinforcement forces.

Nuclear Forces

The Government is committed to maintaining the effectiveness of Britain's nuclear forces, all of which are assigned to NATO. At a time of strategic nuclear parity between the United States and the Soviet Union the independent strategic force of four Polaris submarines provides an important insurance against any Soviet misconception that the United States would not be prepared to use its nuclear forces in the defence of Europe. In this respect, Britain's contribution to NATO is unique, France's distinctive policy debarring it from making the same clear commitment to collective military planning and strategy.

In response to improved Soviet anti-ballistic missile capabilities, a programme of improvements to maintain the effectiveness of the Polaris force into the 1990s, costing about £1,000 million and known as Chevaline, is well advanced; the improved missile will carry advanced penetration aids and be able to manoeuvre its payload in space. The Government is considering possible systems to replace the Polaris force, and a decision will be taken soon.

With regard to theatre nuclear weapons, the White Paper points to the massive superiority that the Soviet Union has in long-range theatre nuclear force systems (920 as compared to 226) and to the dramatic improvement in their quality with the introduction of the SS-20 missile and the Backfire bomber. In contrast, NATO has not introduced any new systems for ten years. It is against this background that the Alliance agreed in December to embark upon a new long-range theatre nuclear force programme envisaging the deployment in a group of Western European countries of 572 United States missiles, comprising 464 ground-launched cruise missiles and 108 Pershing II ballistic missiles. Britain took an active part in shaping this programme, and has agreed to provide bases for 160 of the cruise missiles.

The Central Region of Europe

As a clear expression of its commitment to forward defence and of its determination to resist an attack on NATO from the outset, Britain maintains large forces in this vital region, these comprising the British Army of the Rhine and Royal Air Force Germany. (Britain also maintains a Field Force in Berlin to help maintain the security of the city's Western sectors, but this is not committed to NATO.) The main combat element of the Rhine Army is the First British Corps comprising four armoured divisions, an artillery division and an infantry formation. In an emergency this strength would be more than doubled

by reinforcements from Britain and would then account for up to 70 per cent of the British Army. RAF Germany is a tactical air force of 11 squadrons equipped for strike/attack, reconnaissance, air defence and close support roles, together with a squadron of Wessex helicopters for Army support. In addition, RAF squadrons based in Britain are assigned to NATO's strategic reserve and could, if necessary, be deployed in central Europe.

Eastern Atlantic and Channel

In time of tension or war the Royal Navy, the largest NATO navy in Western Europe, would supply the main weight of forces readily available in these waters, whose security is essential for the transatlantic reinforcement of Europe, and to prevent any weakening of the links between the European and North American elements of the Alliance. In addition to the four Polaris submarines, this contribution would include more than 25 nuclear-powered and conventional submarines, six large warships including anti-submarine warfare carriers and assault ships; some 65 destroyers and frigates, almost all armed with weapon-carrying helicopters; and four squadrons of Sea King anti-submarine warfare helicopters. With the arrival in service this year of the Sea Harrier, the navy will also have fixed-wing aircraft embarked at sea, while shore-based air support is provided by RAF Strike Command in anti-submarine, anti-surface ship, air cover and reconnaissance roles.

The Home Base

The defence of Britain is vital to the Alliance since it is a forward base for Atlantic operations, the main base for Channel and North Sea operations, and a rear base for continental operations. RAF Strike Command is responsible for Britain's air defence, and the Government is taking steps to increase its effectiveness in response to the greatly increased capacity of the Warsaw Pact for conventional air attack. More effective missiles are being fitted to Britain's fighter aircraft, new radar detection systems are being deployed, and the Tornado F2 interceptor will provide a major strengthening of the air defence system when it enters service in the mid-1980s. At sea, the Royal Navy's mine warfare capability will be modernised and strengthened with the introduction of the Hunt class vessels which have mine-hunting and mine-sweeping roles. A new Royal Marines unit is to be formed to enhance its quick reaction force for the defence of offshore installations.

Specialist Reinforcement Forces

Britain's contribution to NATO's specialist reinforcement forces combines a diversity and flexibility of capability and allocation which no other European NATO member can match. It includes land and air units for the Allied Command Europe Mobile Force and the United Kingdom Mobile Force; four aircraft squadrons for NATO's Strategic Air Reserve which can be deployed to any region of Allied Command Europe; and, with the Netherlands, an amphibious force for NATO's Atlantic Command which, among other things, can be used for the reinforcement of Norway, Denmark and the Atlantic islands. Politically, these forces reinforce NATO's cohesion by demonstrating the willingness of its members to aid each other. Militarily, they strengthen its ability to respond flexibly to aggression, especially in the flank regions, and thus make a valuable contribution to deterrence.

Wider Defence Interests

Britain still has national defence commitments outside NATO, including the defence of its remaining dependencies. It needs also to provide for the security of its trade routes, which are of vital importance to its economy, and has a substantial practical interest in the stability of the countries with which it trades. For its part, the Soviet Union has increased its capability, aided by its Warsaw Pact and Cuban allies, for intervening in the Third World, and its ability and willingness to exploit regional instability to advance its own and reduce Western influence in important areas of the world could have serious consequences for the West if not countered. The British Government, therefore, intends to play a full part in firm collective Western responses to Soviet encroachments.

The best response to this global threat, the White Paper states, is to remove the sources of regional instability, principally through diplomacy, development assistance and trade. Military assistance, however, also has a part to play in the support of friendly nations, and Britain will continue to foster close relations with those non-NATO countries, members of the Commonwealth and others, who seek its assistance, value the expertise of its armed forces, and have an interest in purchasing British defence equipment. (In 1978-79 over 6,500 non-NATO personnel received training in Britain, and 600 British officers served on loan outside the NATO area.) The Services will also continue to possess the capability to operate effectively outside NATO without diminishing Britain's central commitment to the Alliance. Certain improvements in their worldwide capability are under consideration, including the provision of extra transport aircraft, additional sea-borne support, a logistic stockpile and improvements to the home-based infantry formation which is capable of undertaking worldwide tasks if required. One parachute battalion will always be available to provide parachute capability at seven days' notice.

In the Mediterranean, the White Paper continues, British forces are currently deployed in Cyprus, both in the sovereign base areas and as part of the United Nations force in Cyprus, to which Britain provides the largest component; and at Gibraltar whose position at the Western entry to the Mediterranean makes it an important asset and base for NATO. Further afield, units of the RAF and Army are stationed in Belize to deter any aggression by Guatemala in pursuit of its claim to Belizean territory, and a warship is deployed to the Caribbean and the western Atlantic as the Belize guardship; while a Royal Marines detachment is permanently stationed in the Falkland Islands, which are subject to a claim by Argentina. Units of all three forces, but particularly the Army, contribute to the garrison in Hong Kong, and these were temporarily reinforced in mid-1979 to help the civil authorities to deal with a large

increase in illegal immigration from China. A Gurkha battalion, paid for by the Brunei Government, will continue to be stationed in that country until 1983 when Britain will relinquish its responsibility for Brunei's external affairs and its consultative commitment to the country's defence.

Northern Ireland

Describing the security position in Northern Ireland, the White Paper states that the Government's purpose is to restore normal life to the province by removing the threat of terrorist violence, and that it looks forward to a time when troops in Northern Ireland, while remaining available to assist the civil power, will be able to concentrate on training for their primary role in war. At present, however, Army support for the Royal Ulster Constabulary in anti-terrorist operations remains essential in many areas.

The Provisional IRA continues to provide the main threat to security, though in the latter part of 1979 there was more evidence of sectarian attacks, including some from 'loyalist' extremists. Service personnel killed in 1979 numbered 48, more than in any other year since 1973. On the other hand, civilian casualties (51) were at the same level as in the previous two years, as were the number of bombing and shooting incidents. The amount of explosive used, however, increased significantly. Those charged with terrorist offences numbered 670, and 869 people were convicted of terrorist crimes.

Military Aid to the Civil Authorities

During 1979 the Services continued to assist the civil community in a variety of ways. For instance, Royal Navy and RAF helicopters participated in 1,309 search and rescue missions and saved 973 lives, often in extremely difficult and dangerous conditions such as those which prevailed during the three-day Fastnet Race rescue operation. Similarly, bomb disposal units responded to 7,000 requests for assistance by police authorities. Royal Navy and RAF units also have an important role in fishery protection and in safeguarding Britain's offshore energy installations.

Overseas, the armed forces provided emergency humanitarian aid in Nicaragua, Jamaica, Sudan, Cambodia and Dominica; built bridges in Kenya; supervised the construction of roads and buildings in Saint Vincent and the Grenadines, the Falkland Islands and The Gambia; and helped improve the water supply in St Helena and the electricity supply in Tuvalu.

Personnel

Britain's armed forces totalled approximately 319,400 personnel at the beginning of 1980, of whom 71,900 were in the Royal Navy and Royal Marines, 159,100 in the Army and 88,400 in the Royal Air Force. A functional analysis of personnel in 1980-81, including civilians employed by the Ministry of Defence, is given in the table. Reserve forces totalled 263,500, of whom 187,900 were regular reserves and 75,600 were voluntary reserves and auxiliary forces. Cadet forces numbered 138,200.

Recruitment, the White Paper records, was generally good in 1979-80, and is expected to total some 49,000, compared with 43,400 in 1978-79. There was a marked improvement following the Government's decision to restore the Services' pay to full comparability with that of their civilian counterparts and to maintain it at these levels in future. This forms part of the Government's policy to improve service conditions and to make good shortages in trained manpower. Recruiting efforts will continue to be extremely important in the 1980s, especially as the Services' trained manpower requirements in the mid-1980s will be 20,000 greater than at present, and because of the declining numbers of young men entering the 16-19 age group from which they normally recruit.

The possibility of future recruitment difficulties is one reason why the Government is taking steps to improve and strengthen the reserve forces which, in an emergency, will have a vital role in

Functional Analysis of Expenditure and Manpower 1980–81

	Expenditure £ million	Military Personnel* (Thousands)	Civilian Personnel* (Thousands)
Nuclear Strategic Force	165	2·5	4·5
Navy General Purpose Combat Forces	1,461	30·4	8·1
European Theatre Ground Forces	1,746	95·2	26·9
Other Army Combat Forces	105	14·9	6·6
Air Force General Purpose Forces	1,865	54·6	11·0
Reserve and Auxiliary Formations	213	2·8	3·3
Research and Development	1,479	1·4	32·0
Training	975	78·8	20·8
Repair and Associated Facilities in Britain	705	9·8	84·9
War and Contingency Stocks	224	—	—
Other Support Functions	1,820	39·8	57·4
Miscellaneous Expenditure and Receipts	27	—	—
Total	10,785	330·2	255·5

*These are average strengths and include locally enlisted personnel, but exclude Ministry of Defence civilians employed in the Royal Ordnance Factories, and Department of the Environment staff employed on defence work.

supplementing and reinforcing the regular forces at home, abroad and at sea. These include increased bounties for volunteers, better training programmes and improved equipment. A Royal Naval Reserve (Air) branch is to be established during the year and Royal Auxiliary Air Force Regiment Squadrons have been formed to help defend airfields in Britain. An Individual Reinforcement Plan has been introduced which will halve the time needed to mobilise the regular Army and Royal Marine reservists who would in an emergency supplement the regular forces and the Territorial Army. (The volunteer element of the Army reserve force reverted to the name of Territorial Army in 1979.)

Women in the Services now number some 12,700 excluding the nursing element, and work throughout the world in a number of ways, for the greater part in support roles such as the supply and communications fields. The Government is looking to the Women's Services to play an increasing part in the work of the Armed Forces, and the White Paper talks of a reconsideration of the traditional attitude against allowing women to bear arms. (So far Britain, unlike an increasing number of countries, has made no move towards training women in the use of firearms for self-defence or for certain limited base defence tasks in an emergency.)

Equipment

Expenditure on equipment accounts for some 41 per cent of the defence budget, and is expected to amount to £4,336 million in 1980-81. Including associated personnel and other costs, total procurement expenditure is expected to reach £4,752 million. Of this, about 69 per cent (£3,259 million) will be spent on production (33 per cent on ships, ship equipment and weapons; 20 per cent on Army equipment and vehicles; 40 per cent on aircraft, aircraft engines, aircraft equipment and weapons; and 7 per cent on general support), and the remainder on research and development.

In support of their commitments, all three Services have extensive re-equipment plans designed to increase their effectiveness in fulfilling their various roles. The first of the new class of anti-submarine warfare carriers, HMS *Invincible*, which will carry Sea King helicopters and the Sea Harrier, has just entered service, and another two will be operational by the mid-1980s. The twelfth nuclear-powered fleet submarine is due to enter service in 1980-81, and three more have been ordered. Other warship classes under development or entering service are the Type 42 guided missile destroyers, of which there will soon be seven, whose primary role is air defence; the Type 22 anti-submarine frigates, of which two are in service and another four on order; and the Hunt class of mine counter-measure vessels. These ship programmes are accompanied by a range of new weapons and equipment, including the Sea Harrier, the first front line squadron of which will be embarked on HMS *Hermes* in the near future; the Sea Wolf point defence missile system coming into service in the Type 22 and Leander class frigates; and the Sea Skua anti-ship missile which will enter service in the Lynx helicopter in 1982-83. The Sea Eagle, an anti-ship sea-skimming missile to replace the Martel and which will be carried by the Sea Harrier, Buccaneer and the Tornado GR1 aircraft, is now under full development.

Army programmes include evaluation exercises for a new British main battle tank to replace the Chieftain, and a programme to improve the latter's offensive capability. By the end of 1980 all the mechanised battalions of the British Army of the Rhine will be equipped with the Milan medium-range anti-tank guided missile, and the American TOW long-range anti-tank guided weapon will be fitted to the Lynx helicopter in the early 1980s. The FH 70 towed 155-mm howitzer has been deployed to its first regiment, while the self-propelled version (SP 70) is expected to become operational towards the end of the 1980s. In 1979 Britain, the United States, France and the Federal Republic of Germany agreed on the co-operative development of a multiple-launch rocket system which, consisting of a tracked self-propelled armoured rocket launcher carrying 12 rockets, will be designed for firing against important targets behind the immediate combat zone. Programmes are underway to improve the Rapier and the man-portable Blowpipe missile systems for low-level air defence.

The Tornado GR1 multi-role combat aircraft, which will replace the Vulcan and the Buccaneer in the strike/attack role and the Canberra in the reconnaissance role, is now in full production and will enter service this year. The F2 version for air defence, which will be armed with Sky Flash and AIM 9L Sidewinder air-to-air missiles, will become operational in the mid-1980s. The possibility of a collaborative project to develop a tactical combat aircraft to replace the Jaguar in about 1990 is being discussed with other NATO countries, and consideration is being given to improving the Harrier to enable it to remain in service until the end of the century. The Sky Flash missile is now in service, while the Sidewinder will be in use in 1981-82. Britain and the United States are continuing to develop an advanced airfield attack weapon.

To improve Britain's defences against chemical attack, new clothing equipment, a new automatic nerve agent detector and a chemical agent monitor are being developed. The White Paper points out that, unlike NATO, the Soviet Union has a major capability for offensive chemical warfare; Soviet forces maintain large stocks of chemical munitions and are fully equipped and trained to operate in a chemical environment.[1]

The Defence Budget

The defence budget estimates for 1980-81 totalled £8,001 million at 1979 prices, an increase

[1]In a BBC radio interview on 3 April the Secretary of State for Defence, Mr Francis Pym, said that he did not think that many people in Britain realised that the Soviet Union had this aggressive chemical warfare capability. Because of this capability and 'because it represents such an awful threat, it is necessary for us to consider whether we in turn ought to seek to deter them from using it by having a similar capability ourselves'.

of 3·5 per cent on expenditure in the previous year. (At 1980-81 estimates prices, this figure is £10,785 million.) In the next three years the Government plans defence budget levels which will equal or exceed the NATO target of annual increases of around 3 per cent in real terms. In 1979 defence expenditure accounted for 4·9 per cent of Britain's gross domestic product, a proportion exceeded among NATO countries only by the United States. A functional analysis of planned expenditure for 1980-81 is contained in the table.

The Brandt Report

Far-reaching measures to improve world economic relations and an emergency programme for the years 1980-85 are the main features of the report of the Independent Commission on International Development Issues (also known as the Brandt Commission) which was published in March.[1] The report also recommends a summit of world leaders – representative of major world groupings – to discuss the emergency programme which, the report states, 'would establish the basis for co-operation and shared responsibility on which the more fundamental changes would rest'.

The British Government's preliminary views on the report's recommendations were made known in parliamentary debates in mid and late March.

THE COMMISSION AND ITS PROPOSALS

The Brandt Commission was established in 1977 at the instigation of the President of the World Bank, Mr Robert McNamara, and was composed of 18 prominent politicians and public figures serving in a personal capacity under the chairmanship of Herr Willy Brandt, the former Chancellor of the Federal Republic of Germany. Among its members were Britain's former Prime Minister, Mr Edward Heath, and the Secretary-General of the Commonwealth, Mr Shridath Ramphal. The Commission's operations were financed by contributions from several countries, including Britain, from regional organisations and funds, such as the European Community, and from private foundations in North America and Europe.

In addition to examining the record of previous development efforts and reviewing the prospects for the world's economy in the 1980s and beyond, the Commission's terms of reference enjoined it to 'strive above all to carry conviction with decision-makers and with public opinion that profound changes are required in international relations, particularly international economic relations'. It was also asked to 'pay attention to the responsibilities of developing countries in their domestic policies, to match the effort for international economic and social justice with efforts to promote the same ends among their own populations'.

The International Economy

In a summary of its findings, the Commission's report states: 'At the beginning of the 1980s the world community faces much greater dangers than at any time since the second world war. It is clear that the world economy is now functioning so badly that it damages both the immediate and the longer-run interests of all nations. The problems of poverty and hunger are becoming more serious; there are already 800 million absolute poor and their numbers are rising; shortages of grain and other foods are increasing the prospects of hunger and starvation; fast-growing population, with another [2,000 million] people in the next two decades, will cause much greater strains on the world's food and resources. The industrial capacity of the North is under-used, causing unemployment unprecedented in recent years, while the South is in urgent need of goods that the North could produce. Rapid inflation, erratic exchange rates, and unpredictable interventions by governments are seriously disrupting the trade and investment on which an immediate return to world prosperity depends.'

Prospects for the future, the report continues, are alarming, and 'with the prospect of even higher unemployment and slower long-term growth many people will instinctively want to protect themselves from the harsh realities of foreign competition, turning instead to their purely domestic responsibilities'. The report warns, however, 'that such a defensive reaction will be disastrous, as it was in the years before the second world war. Since that time the nations of both the South and the North have become far more interdependent. . . . The self-interest of nations can now only be effectively pursued through taking account of mutual interest.'

In view of this, the report calls on all governments, but particularly those of the developed countries, to take a fundamental new look at where their interests lie in North-South relations. The 'responsibility for averting catastrophe must lie within nations and regions, both in the North and the South; their governments must set their own programmes based on long-term survival and justice rather than temporary expediency. While developing countries call for social justice internationally, they must not neglect such values at home; nor must they let slip the opportunities at hand for greater co-operation among themselves. The North for its part . . . must find new patterns of growth, more sensitive to the world's needs.' The report also states 'that long-term world security and development will depend on the participation both of the East European countries and of China', and hopes that these countries 'will participate more fully with the rest of the world in joint endeavours to find solutions to the world's problems'.

The main limit on an effective response to this challenge, according to the report, is 'the non-existence of a clear and generalised awareness of

[1] *North-South. A Programme for Survival.* The Report of the Independent Commission on International Development Issues under the Chairmanship of Willy Brandt. Pan Books Ltd, £1·95. ISBN 0 330 26140 1.

the realities and dangers and the absence of political will to face up to them and take corrective action. Only in a spirit of solidarity based on respect for the individual and the common good will it be possible to achieve the solutions that are needed.'

Long-term Measures

With a view to creating the economic environment required to enable 'all countries . . . to participate fully in the world economy in a way which assists genuine development', the report contains a programme of priorities setting out the main tasks for the 1980s and 1990s.

Priority Needs of the Poorest

Urging that priority should be given to the needs of the poorest countries and regions, the report calls for a major initiative in favour of the 'poverty belts of Africa and Asia' involving both long-term and emergency measures. These would embrace large regional projects of water and soil management; the provision of health care and the eradication of major diseases; afforestation projects; solar energy development; mineral and petroleum exploration; and support for industrialisation, transport and other infrastructural investment. The report also recognises that, in addition to requiring substantial regional transfers from the developed countries – an additional $4,000 million annually at least for the next two decades – the removal of poverty also depends on the 'increased determination of the developing countries to improve economic management and deal with social and economic inequalities'.

Abolition of Hunger

Emphasising that 'the world must aim to abolish hunger and malnutrition by the end of the century through the elimination of poverty', the report calls for increased food production, particularly through raising the capacity of food-importing developing countries to meet their requirements through their own efforts and through expanded financial flows for agricultural development. Among other things, this would require revised priorities in developing countries, particularly with a view to undertaking agrarian reform so as to increase agricultural productivity and put higher incomes into the hands of the poor. The report also points to the need for improved international food security measures, such as the establishment of an International Grains Arrangement, larger international emergency reserves and provision for a food financing facility to assist low-income countries in times of severe food shortages.

Commodities

The report stresses the need to increase producer countries' earnings from commodities, particularly through greater participation in commodity processing and marketing, in order that such earnings could contribute more adequately to development. To this end, it urges the provision of adequate resources for the Common Fund (see pp 92-3, 1979) – to finance effective international commodity agreements which would stabilise prices at remunerative levels; to finance national stockpiling outside the agreements; and to facilitate its Second Window operations such as storage, processing, marketing, productivity improvement and marketing. It also calls for the expansion and improvement of compensatory financing facilities (for example, the STABEX scheme of the Lomé Convention; see p 332, 1979) to provide more adequately for shortfalls in real commodity export earnings.

Manufactures

Pointing out that the industrialisation of developing countries would provide increasing opportunities for world trade and need not conflict with the long-term interests of developed countries, the report calls on the latter to reverse the present trend towards protecting its industries from Third World competition and to promote instead 'a process of positive, anticipatory restructuring' to adjust to new patterns of world industrial production. This would be facilitated by improved institutional machinery – a new body embracing both the General Agreement on Tariffs and Trade (GATT) and the United Nations Conference on Trade and Technology (UNCTAD) is suggested – and the adoption of new trading rules and principles, including improvements to the rules governing the Generalised System of Preferences. Developing countries are warned to beware of their own protectionism, which offsets the competitiveness of their exports, and curtails the opportunities for trade among themselves.

Transnationals, Technology and Mineral Development

The report calls for international codes of conduct and effective national laws to ensure a broader sharing of technology, to control restrictive business practices and to provide a framework for the activities of transnational corporations. A better international investment regime, it adds, would lead to mutually beneficial relationships between such corporations and the host countries, and would also encourage much needed investment in mineral and oil supplies. The report also refers to the need to increase efforts to develop appropriate technology and improve the flow of information regarding such developments.

Reform of the Monetary System

A key issue, the report states, is the reform of the monetary system in order to establish more stable exchange rates, symmetry in the burden of adjustment to balance of payments deficits and surpluses, an orderly expansion of international liquidity and the participation of the whole international community in the management of the system. With regard to increasing monetary stability, it suggests that improved Special Drawing Rights should become an international currency and replace national currencies as the principal reserve asset, their issuance being geared solely to the agreed need of non-inflationary increases in world liquidity. The distribution of such unconditional liquidity would be such as to favour developing countries presently bearing high adjustment burdens, such a distribution also assisting the adjustment process of the international monetary system.

A New Approach to Development Finance

The report recognises that the above measures will involve more than a doubling of the current $20,000 million of annual overseas development assistance, together with a substantial additional lending on market terms. To facilitate this, it suggests a new approach to development finance, the main features of which would be:

1 An international system for mobilising aid funds in which all countries except the poorest would participate, their contributions being based on a sliding scale related to national income.

2 The adoption by industrialised countries of a timetable for reaching the 0·7 per cent of gross national product target for official development assistance by 1985, and advancing to 1 per cent by the end of the century.

3 The introduction of automatic revenue transfers through international levies on, for example, international trade, arms production or exports and international travel, and revenues from new global enterprises such as sea-bed mineral exploitation.

4 Increased lending through international financial institutions, particularly the World Bank, by raising its borrowing capacity from the present $80,000 million to $160,000 million, the regional development banks, and the International Monetary Fund through further sales of its gold reserves.

5 Greater participation by developing countries in the management of international institutions, and particularly in a new World Development Fund designed to fill gaps in present aid financing such as the need to increase programme lending.

6 Increased lending by commercial banks and other private financial bodies, especially with a view to co-operating with international financial institutions in meeting the requirements of middle-income countries.

The Emergency Programme

The emergency programme, designed to meet the needs of the next five years before the longer-term measures could take effect, would have four main elements.

1 A large-scale transfer of resources to the developing countries which, if the industrialised countries commit themselves to attaining the 0·7 per cent target by 1985, would provide by that year an additional $30,000 million annually; this rising to between $50,000 million and $60,000 million with increased commercial flows. It would also involve East European and the better-off developing countries contributing significantly to aid flows.

2 An international energy strategy which, through an accommodation between oil-producing and oil-consuming countries, would ensure more secure supplies, more rigorous conservation, more predictable price changes and positive measures to develop alternative sources of energy. Among other things, this would involve oil producers giving assurances on levels of production and agreeing not to reduce supplies arbitrarily or suddenly, and major oil consumers adopting targets to hold down consumption, these being more ambitious than those agreed at the Tokyo Summit in 1979 (see pp 198-200, 1979) and by the International Energy Agency.

3 The launching of a broad programme of increased food production and agricultural development with aid totalling some $8,000 million annually; and a start to the programme of international food security by an early conclusion of the International Grains Arrangement.

4 The first steps towards reforming the international economic system, particularly through giving consideration to the report's suggestion for a new financial institution, accelerating efforts to liberalise world trade in commodities and manufactures, and joint efforts to restore international monetary stability.

BRITISH VIEWS

The British Government's preliminary reactions to the Brandt report were outlined in debates in the House of Lords on 12 March (*Hansard (HL)*, Vol 406, No 96, cols 1077-171) and in the House of Commons on 28 March (*Hansard*, Vol 981, No 148, cols 1800-28 and 1837-97). Speaking in the latter debate, the Minister for Trade, Mr Cecil Parkinson, explained that it would take time for the Government to complete its study and analysis of the report, and, since only concerted action would be effective, it would do so in consultation with other governments, particularly those of the European Community.

Mr Parkinson welcomed the report 'as a major attempt to outline some of the great problems that the developed and developing world will face in the next 20 years and to suggest answers'. In this regard, it provided both a comprehensive view of the whole range of issues touching on development and the management of the world economy; and, in its analysis, a cogent account of the problems to be faced, particularly by the developing countries. Emphasising that no one could underestimate the gravity of such problems as under-development, poverty and malnutrition, Mr Parkinson explained that their solution depended on further growth in the world economy in order to generate the additional resources required. At present, however, the world was faced with rising inflation and recession which had serious implications for both developed and developing countries, but particularly for the latter. Rising oil prices would increase their already heavy debt burden and require painful changes in their economic plans, and a slowdown in world trade would reduce the export earnings with which they financed their import needs. In addition, developed countries, being compelled to set tight limits on public expenditure, would inevitably squeeze the resources available for development assistance.

At a time when governments all over the world were in danger of becoming obsessed with their own problems, Mr Parkinson continued, the report was also timely in reminding them that the world faced huge problems which would have to be approached in an imaginative way. Developed and

developing countries shared, as the report stated, a joint interest in tackling these problems.

The Emergency Programme

Mr Parkinson then turned to four main themes of the Commission's report summarised in its proposals for an emergency programme. With regard to the Commission's belief that a massive transfer of resources was the best single way to benefit developing countries, and that such transfers would provide a stimulus to world economic activity as a whole, the Minister suspected that the reality might be more complex. Whatever differing conclusions were reached as to the optimum flow of resources from North to South, the essential point for Britain was that it had to tailor what it could afford. The recently announced reductions in the aid programme (see p 105), like other cuts in public expenditure, had been painful, but were unavoidable if Britain were to strengthen its economy, and it was on this that its ability to support overseas development ultimately depended. Despite the cuts, the aid programme remained a substantial one. The Government had also removed exchange controls (see pp 338-9, 1979), thus aiding the private flow of money.

An understanding with the members of the Organisation of Petroleum Countries (OPEC) on oil prices and supplies could, as the report suggested, provide a framework for a revival of world economic activity, but there were practical difficulties to be faced in achieving and maintaining such an understanding. Mr Parkinson welcomed, however, the emphasis placed by the report on the need and the scope for better relations between oil producers and oil consumers, and on the need to avoid large, sudden oil price increases that were economically damaging, especially to developing countries. Britain accepted that the long-term trend of oil prices was upward. The problem was to ensure that the transition was orderly and no more disruptive than it needed to be.

Mr Parkinson welcomed the Commission's emphasis on the raising of food production in the Third World and on making food supplies more secure, and suggested that agrarian reforms within developing countries had an essential contribution to make. He pointed out that Britain's food aid programme amounted to about £40 million annually, and that the Government would consider the question of liberalising the world trade in food with its partners in the European Community.

Turning to the Commission's call for a reform of the existing institutional arrangements for the management of the world economy, Mr Parkinson agreed that the system should continue to evolve and adapt to meet new circumstances and needs. This, he believed, it was doing, and he pointed to the way the World Bank, the International Monetary Fund and the General Agreement on Tariffs and Trade had amply demonstrated their capacity to meet new changes and challenges. This was a process that should continue, the aim being to strengthen the existing system and not to overturn it. There was no advantage in the proliferation of new international machinery or of the new international bureaucracy which inevitably accompanied it. Multilateral action had a role to play in development matters, but Mr Parkinson hoped that global discussions would not become a substitute for bilateral actions both by governments and countries. Such discussions, he warned, were being allowed to slow down the process of bilateral action on an ever-increasing scale. He also pointed out that private companies were the custodians of a great deal of the West's technology and capital.

Trade and Industrial Adjustment

Trade, Mr Parkinson told the House, was by far the most significant element in the relationship between developed and developing countries; in 1977 the trade of the member countries of the Organisation for Economic Co-operation and Development (OECD) with developing countries had in money terms been 35 times greater than their aid flows to these countries. The Brandt report's warning of the dangers of protectionist measures, therefore, was right. Britain, being probably more dependent on trade than any other industrialised country, needed no reminding of the disastrous consequences of protectionism, and the preservation of the open world trading system was essential if the developing countries were to fulfil their development roles. He reminded those who argued for protection against the imports of goods from low-cost suppliers that the West had a substantial surplus with these countries, and in cutting off that trade would damage developing countries and their own economies even more. Developing countries should not be seen as a threat, but as a vital part of the motor that drove the world economy.

At the same time, he continued, the newly industrialised countries should be persuaded to stop seeking the protection and help that the poorer developing countries required. They owed it to the rest of the trading world to open up their markets as quickly as possible. Britain expected to increase its two-way trade with these countries, and would press that case in the renegotiation of the General System of Preferences. He also hoped that some of these countries would become signatories to the General Agreement on Tariffs and Trade and accept its rules.

Turning to the question of industrial adjustment, the Minister said that Britain had to accept such adjustment and cease the resistance to change which had been a feature of its industrial scene. It had to accept that in more and more industries a transfer of technology should take place. Such changes were not new and would continue, although they were not welcome. Adjustment was a difficult but necessary process, and everything had to be done that would aid it. But those who believed that global plans for adjustment would be implemented easily should think again.

Referring to commodity questions, Mr Parkinson said that the Government supported the development of international commodity agreements where they were feasible, cost-effective and of benefit to both producers and consumers, but was sceptical about the scope for reaching

such agreements over the whole range of commodities. The Government also supported the development of the Common Fund, and had committed itself to the fund's Second Window (see pp 92-3, 1979).

Conclusions

Mr Parkinson pointed out that all countries, not only those in the West, had a part to play in tackling development problems. The Commission had rightly pointed out the inadequate performance of the Soviet Union and its allies as aid donors and as markets for the exports of developing countries.[1] It had also emphasised that successful development depended ultimately on the efforts of the developing countries themselves. The prime objective of Britain's development policies had to be to maintain and strengthen these efforts.

It was also important, Mr Parkinson continued, not to forget what measures had already been taken for the benefit of the developing countries; and he pointed to the successful outcome of the multilateral trade negotiations in 1979 (see pp 156-9, 1979) and the new Lomé Convention (see p 332, 1979). He also referred to the recent doubling of the capital of the World Bank, the prospect of a sixth replenishment of the International Development Association, and the general increase in financial flows to developing countries.

Finally, Mr Parkinson emphasised the role of trade, investment and technology, 'the great engines of development' which in Western countries lay mainly in private hands. Experience in developing countries which had most successfully expanded their industrial base and exports, he added, underlined the dynamic effect of private initiative working with government for development and growth.

Opposition Views

Speaking earlier in the debate, Mrs Gwyneth Dunwoody, an Opposition spokesman on foreign affairs, strongly welcomed the report which set out facts which were 'horrifyingly' familiar. It was a sad commentary that it was being debated at a time when the Government had announced a cutback in the British aid programme, and was expanding the money available for defence. The message which should go out from the House should be one of commitment 'to ensure that in . . . a modern world it will not be necessary for children to die of starvation and disease while we have the ability and the will to change that pattern'.

[1]Development assistance received by developing countries in 1978 totalled $24,100 million, of which 81 per cent was provided by the Western countries in membership of the OECD's Development Assistance Committee (DAC). The latter's net disbursement of official development assistance in 1978 was $19,900 million, an increase in real terms of 7 per cent on the previous year. Including private grants and investment, net flows from DAC countries amounted to some $71,400 million out of a world total of $80,000 million. As percentages of gross national product, the DAC totals represent 0·35 and 1·26 respectively; the equivalent percentages for disbursements by Britain were 0·48 and 3·35 (see p 106).

Expenditure on Overseas Aid

A reduction in overseas aid has been announced as part of the Government's policy to reduce public spending generally. Britain's aid programme will nonetheless remain a substantial one.

Aid statistics for 1978 have been published.

EXPENDITURE PLANS

The White Paper on the Government's expenditure plans for the period 1980-81 to 1983-84, published on 26 March (see p 123), announced reductions over the next three years in net spending on overseas aid. In 1979-80 expenditure on aid was £794 million; in 1980-81 it will be £779 million; in 1981-82 it will be £730 million; and in 1982-83 and in 1983-84 it will be £680 million (1979 survey prices).

In a statement released on the same day as the White Paper the Minister for Overseas Development, Mr Neil Marten, said that the Government regretted the need for the cutback but that it was a necessary part of the action to bring down public spending to a level the country could afford. Many painful decisions had had to be made in the domestic programme, and overseas aid had had to take its share. Even after the reductions Britain would still have a substantial programme of aid. [It would be higher in real terms in 1982-83 and in 1983-84 than in 1976-77.]

'Our task', the statement continued, 'is to make the best use of the funds available. We have set out the main principles that will guide us in the statement on aid policy [see p 75]. . . . Our aim is to build on the mutual interest of Britain and the developing world, but in doing so we must keep within the resources allocated. The amount we can devote to aid will ultimately depend on our success in strengthening the wealth-creating sectors of our economy.'

BRITISH AID STATISTICS 1978

British aid to developing countries in 1978 amounted to £743 million gross, of which £555 million was disbursed bilaterally to over 130 countries and £188 million represented contributions to multilateral development agencies. Net of repayments on past aid loans, total assistance was £688 million.

These figures are given in the annual *British Aid Statistics* prepared by the Overseas Development Administration and published in March 1980.[1] Of the total flows figure of £743 million, £726 million represented total public expenditure on overseas aid, and £17 million additional aid flows from official sources. Gross disbursement of official development assistance (oda) totalled £685 million.

International Targets

Britain's aid represents part of a global effort to raise living standards in developing countries. Aid performance to this end is usually measured

[1]*British Aid Statistics 1974-78*. HMSO, £6·50. ISBN 0 11 580219 3.

against two internationally recognised targets. The first calls for oda flows to be at least 0·7 per cent of gross national product (GNP); and in this respect, using the same measure of oda that was used in previous years, Britain's net oda totalled £632 million or 0·39 per cent of GNP in 1978 compared with £524 million or 0·37 per cent of GNP in 1977. Using an alternative measure of oda, allowing more accurate comparison between donors, Britain's net oda in 1978 totalled £768 million or 0·48 per cent of GNP, and the average for all donor countries in membership of the Development Assistance Committee was 0·35 per cent.[1]

The second international target calls for all flows, both private and official, to developing countries to represent at least 1 per cent of GNP. In 1978 Britain's total flows amounted to £5,253 million or 3·35 per cent of GNP, giving Britain the second highest performance among members of the Development Assistance Committee. The 1978 figure represented a large increase on the 1977 figure of £3,859 million, this being almost entirely due to increased foreign currency lending by banks resident, for balance of payments purposes, in Britain.

Bilateral Aid

Some £542 million of gross public expenditure on overseas aid was bilateral assistance. Of this, some £153 million was provided for the technical co-operation programme, all in grant form, the remainder being financial assistance comprising £266 million in grants, £91 million in inter-governmental loans and £32 million in investment by the Commonwealth Development Corporation (see pp 154-5, 1979).

Some 74 per cent of bilateral aid, £401 million, went to Commonwealth countries, including £37 million for Britain's dependencies, which remain a first charge on the aid programme, and £8 million to the Associated States in the Caribbean. Of the remainder, £93 million was disbursed to non-Commonwealth countries and £48 million for the benefit of both Commonwealth and non-Commonwealth countries. The largest individual recipient was India (with £119 million), followed by Bangladesh (£44 million), Zambia (£33 million), Kenya (£29 million), Jamaica (£20 million) and Pakistan (£18 million). The share of bilateral assistance going to the very poorest countries (those with a 1976 income of less than $280 per head) was £313 million or 58 per cent of the total.

Project aid, for particular development projects, totalled £187 million, with nearly a third, £60 million, being provided for transport and communications projects. Of the remainder, £29 million was for renewable natural resources, £27 million for manufacturing industry (including £14 million for the processing of agricultural products), and £19 million for social and community services. Non-project aid totalled £202 million, of which £132 million was programme aid for import financing operations, £15 million for food aid, and £14 million for budgetary support.

Terms of Financial Aid

In addition to inward capital repayments on previous public expenditure loans amounting to £53 million, developing countries paid Britain during the year £41 million in interest on such loans. However, most of this was in respect of investment in commercial-type projects run by the Commonwealth Development Corporation. Since 1965 most new loans have been on interest-free terms.

Both capital repayments and interest receipts will fall significantly in future years as a result of Britain's decision in July 1978 to release many of the poorest developing countries from the burden of repaying past aid loans (see p 304, 1978), and due to the increased emphasis on grants in recent years. Grant commitments in 1978 were £502 million, more than double the figure in 1977. Inter-governmental loan commitments totalled £145 million, of which 40 per cent was on interest-free terms.

Overseas Service

Some 9,500 men and women financed from public funds under bilateral arrangements and recruited in Britain served in developing countries during 1978. These included 6,000 serving under the Overseas Service Aid Scheme or similar supplementation scheme (under which they are in the service of the overseas Government as teachers, doctors, nurses, etc, but receive supplementary salary and other payments from the British Government); 1,960 wholly financed under regional technical co-operation and other schemes; and 1,500 as volunteers under the British Volunteer Programme. The number of such personnel recruited during the year was 2,450 of which 460 were volunteers. In addition, 325 experts were appointed under multilateral technical co-operation arrangements to serve in developing countries under the United Nations and its specialised agencies.

Of the British-financed personnel, including volunteers, overseas in 1978, the largest number, some 4,560, were employed in education, followed by 1,215 in renewable natural resources, 1,200 in planning and public administration, 980 in trade and industry, 830 in public utilities and 730 in health and social welfare.

Students in Britain

During 1978 some 14,400 students and trainees from developing countries attended courses in Britain financed from public funds under technical co-operation arrangements. Of these 9,480 came from Commonwealth countries, the greatest number from Rhodesia, now Zimbabwe (1,551) followed by India (994), Tanzania (515), Kenya (416) and Ghana (403). The main fields of study were engineering, education, medicine, natural sciences and social sciences including economics. Britain

[1]This basis uses the same definition of oda (official aid flows for development purposes with a grant-concessional-element of 25 per cent or more), but with an alternative treatment of flows to multilateral agencies made by means of promissory notes deposited in a bank. Previously Britain reported as oda flows the drawings made by agencies on these notes, whereas on the alternative basis the deposit of a note is taken to represent a flow to the agency and the total amount of the note is reported at that time. It should be noted that, while the alternative basis generally produces higher figures for aid flows, it does not of itself imply any increase in the flows.

also financed the study of another 1,000 students in their own or other countries.

Multilateral Aid

About 25 per cent of public expenditure on overseas aid, some £184 million, went to multilateral aid agencies, £127 million in financial aid and £57 million as technical co-operation funds. The major recipients were the International Development Association, the European Community and the United Nations Development Programme.

Britain and the Olympic Games

The Government's decision to advise against participation by British athletes in the Moscow Olympic Games, in response to the Soviet Union's invasion of Afghanistan, has been approved by the House of Commons. In a free vote on 17 March MPs passed by 315 votes to 147 a motion condemning the invasion and believing that Britain should not take part in the Games. In spite of the House of Commons vote the British Olympic Association has accepted the invitation to take part in the Games.

The Government's View

Opening the debate on the motion (*Hansard*, Vol 981, No 139, cols 31-168), the Lord Privy Seal, Sir Ian Gilmour, said that 'it would be completely inappropriate for Britain to take part in the Games' while the Soviet Union continued its aggression against the people of Afghanistan. Drawing attention to other measures taken as a result of the Soviet invasion (see pp 15-16 and 53-4), Sir Ian pointed out that these had been part of a 'consistent, co-ordinated policy' involving British people in many spheres of life. Although the Government accepted that a considerable sacrifice was being requested of British sportsmen, it was asking that they too should make a contribution.

Sir Ian reminded the House that the Government did not initially advise a boycott of the Games but had tried to get them moved from Moscow (see p 53). The Government understood and sympathised fully with the athletes who had 'made sacrifices and subjected themselves to a hard training discipline for many months or years in order to arrive at peak condition for the summer Games in Moscow'. It had thought hard about the issue and how it could help. Britain was examining with a group of like-minded countries the possibilities of enabling sportsmen to compete against each other in conditions similar to the Olympics but without the moral conflict attached to attending the Moscow Games.[1] There were, however, many practical difficulties since the international sporting organisations had their own rules and procedures and the power largely to decide whether and under what conditions international sporting events took place. This was rightly and properly a matter for the sporting bodies, and the Government hoped that they would facilitate efforts to mount alternative games.

Sir Ian said that the Government felt 'bound to give a lead and to point out the context in which individuals [would] have to take their own decisions'. Responding to anxieties about the liberty of the individual, he commented that it would be wrong to prevent athletes from going to Moscow by such measures as the withdrawal of passports. Nevertheless, certain decisions flowed from the Government's advice. The Sports Council had been advised that public money should not be made available to send athletes to the Games, and the British attaché helping to organise British participation was being withdrawn from the Soviet Union. Any British visitor would continue to enjoy the full services of British consular officials, and the British Olympic Association would be free to appoint its own attaché. Another measure was the Government's decision not to grant special paid leave for people working in the public service to participate in the Games; the use of annual leave would remain a matter for the individual in a free society and any request for unpaid leave would, as usual, depend on the needs of the service. The Government hoped that individuals would listen to its advice about British interests but in the last resort the decision in Britain would remain where it belonged, with the individual.

Dealing with the suggestion that British athletes should demonstrate disapproval of Soviet actions while participating in the sporting events, Sir Ian said that he could not commend such a course. If the Games were attended, athletes would become guests and accept the rules of the host – technically the International Olympic Committee but, in Soviet propaganda terms, the Soviet Union. Any refusal to comply with the requirements of the organisers would not merely be seen as a discourtesy, but could also be represented as a disruption or, in Soviet jargon, hooliganism, and the effect of such action on the Soviet television viewer would be much less certain in its results than 'the unmistakable and uncompromising act of absenting oneself'. The only effective course of action was non-participation in the Games.

The Lord Privy Seal then discussed the arguments of the British Olympic Association that politics should be kept separate from sport and that attendance at the Games in Moscow would no more signify approval of Soviet behaviour than the continued presence there of the British ambassador. Sir Ian described these views as 'fallacious' as they ignored the Soviet attitude to the Olympic Games. A handbook for party activists published in the Soviet Union in 1979 had claimed that the holding of the Games in Moscow was convincing proof of the general acknowledgment of the historical importance and correct foreign policy of the Soviet Union and its 'huge' services to peace. Sir Ian observed that the Soviet Union did not think that sport should be kept separate from politics and that it saw the Games 'as a propaganda exercise from which it [hoped] to derive very great advantage'.

[1]Representatives from Britain and 11 other countries met in Geneva on 18-19 March and worked out a set of suggestions which are being discussed with various sporting organisations.

Sir Ian said that a decision by several Western countries to absent themselves from the Games would 'have a powerful impact upon the Soviet population at large', for sport in the Soviet Union generated 'intense public interest' and Soviet athletes received many privileges. Without full international participation the Games would be 'fatally flawed' and it would not be easy to hide that fact. The Soviet people would realise that the staying away of Western countries implied 'a response to a Soviet action of great gravity' and doubts and uncertainties already arisen in the minds of many about the armed intervention in Afghanistan would be magnified and would call for a satisfactory answer. Pointing out that the presence of the British ambassador could not be said to confer a great propaganda victory upon the Soviet Union and that the presence of Western athletes at the Games would, Sir Ian urged British athletics bodies to reflect very carefully before they reached a final decision. This was a very difficult one to take especially for Britain with its sporting achievements and traditions. However, grave breaches of international order required serious responses and no other Western response would be so unequivocally clear to millions of ordinary people in the Soviet Union'.

Another very important element in the present situation was the defence of human rights and the position of Soviet dissidents, for Britain could not 'lightly brush aside the views of those who continue their steady and courageous insistence on the rights assured to them by law and by international agreements, notably the Helsinki Final Act'. Pointing out that prominent Soviet dissidents were supporting a boycott of the Games on the grounds that they were primarily a political event, Sir Ian drew attention to recent arrests of dissidents, the arbitrary banishment of Dr Andrei Sakharov, and the stepping up of harassment. Part of this campaign – particularly marked in Moscow – could certainly be ascribed to 'official concern that nothing should be allowed to mar the resounding propaganda victory that the Soviet authorities had hoped to gain from the Olympic Games'. This new wave of repression represented a perversion of the Olympic ideal and 'would itself be a reason for not going to Moscow this summer'.

In conclusion, Sir Ian outlined the Government's belief that many prominent sporting countries would decide not to go to Moscow.[1] He did not think that in these circumstances British athletes would wish to attend 'discredited Games'. Emphasising that the Government had considered both the personal dilemma and disappointment of individual athletes and the very real difficulties of organising alternative games, Sir Ian said that it was 'entitled to ask British athletes and their representatives, as well as this House, to consider the international consequences of their actions'. Non-participation offered Western countries the 'single most effective way' of bringing home to the Soviet regime and to the Soviet people their refusal to accept the occupation of Afghanistan.

[1]On 12 April the United States Olympic Committee voted by 1607 votes to 797 against going to Moscow. The latest information available suggests that some 30 Governments have publicly announced that they are in favour of a boycott or have expressed serious reservations about their athletes taking part.

Response of the British Olympic Association

On 25 March the British Olympic Association accepted the invitation from the Moscow organising committee to participate in the Games. The Foreign and Commonwealth Office issued a statement on the same day seriously regretting the decision and pointing out that individual governing bodies of sport and individual sportsmen and women were not bound by it. They were still free to decide their own course of action and the Government hoped that they would be guided by its advice for 'never before in the history of the Olympic movement has the host country been committing aggression at the time against another country'. Since fighting continued in Afghanistan and Soviet troops remained there as invaders, the Government remained in favour of a boycott of the Games while this situation persisted.

Three British governing bodies—those for hockey, equestrian events and yachting—have decided to boycott the Games, and 15 others have supported participation. The Amateur Swimming Association has not yet taken a final decision.

Foreign Secretary's Visit to Romania

The Secretary of State for Foreign and Commonwealth Affairs, Lord Carrington, paid an official visit to Romania from 12 to 14 March for talks with President Nicolae Ceausescu and Foreign Minister, Mr Stefan Andrei. In a joint press statement issued on 14 March the two foreign ministers spoke, among other things, of their 'deep concern' at the deterioration of the international situation and of the need to resolve international disputes 'exclusively by peaceful means'.

Joint Statement

In the joint press statement the two foreign ministers 'expressed their Governments' satisfaction at the positive development of British-Romanian relations'. They emphasised in particular the importance of the President's state visit to Britain in June 1978 and the joint declaration signed at that time (see pp 256-7, 1978). 'They expressed the determination of their two Governments to work for the intensification of co-operation and of contacts and consultations at all levels and in all areas of mutual interest, to expand trade and industrial, technical and scientific co-operation, and to develop relations in the field of education, art, culture, sport and tourism, as well as in other fields.'

Commercial Exchanges

The two sides 'expressed satisfaction at the positive development in recent years of commercial exchanges and at the existence of real opportunities and a common interest in their further development. They expressed their resolve fully to utilise the opportunities offered by their economies for economic and industrial co-operation, including co-operation in third countries', with a view to attaining the objective – agreed between the two countries – of achieving by the end of 1980 an increase in the volume of trade to two and a half times that of 1974.

Noting 'the importance of the continuing development of British-Romanian economic co-operation, they recalled in particular the final conclusion in 1979 of agreements between Romanian enterprises and British Aerospace and Rolls Royce covering the manufacture of BAC 1-11 aircraft in Romania. Both sides agreed that sustained efforts were necessary to implement the proposals for co-operation agreed at the recent session in Bucharest of the governmental joint commission for Anglo-Romanian economic, industrial and technological co-operation. They also noted that broad opportunities existed in various fields, including energy, for the extension of Anglo-Romanian economic co-operation. They expressed their resolve that the two sides should conclude new contracts on major projects in order to develop further their economic co-operation and trade.'

International Situation

The two foreign ministers 'expressed deep concern at the deterioration of the international situation, as a result of policies based on force and violation of national independence and sovereignty of states, and disregard for the right of nations to live in freedom. They agreed on the urgent need to halt the deterioration in world affairs, to settle international crises and to resume the policy of détente throughout the world to the benefit of all. They emphasised that international disputes should be resolved exclusively by peaceful means, by negotiations based firmly on respect for independence and national sovereignty, non-intervention in internal affairs and non-recourse to force or the threat of force. In accordance with this, political solutions should be found to the conflicts and areas of tension in various parts of the world.'

European Questions

The two foreign ministers 'devoted special attention to European questions. They noted with regret that very little had been done to implement the provisions of the Helsinki Final Act [of the Conference on Security and Co-operation in Europe (CSCE); see pp 305-12, 1975]. They stressed that every measure should be taken to promote good prospects for the Madrid meeting [the CSCE follow-up meeting scheduled for November 1980], so that the process begun at Helsinki of building and developing co-operation can be pursued. They considered that, in furtherance of this process, it is necessary to examine military aspects of security and the question of convening a conference on disarmament in Europe.'

International Economic Relations

The ministers 'agreed to work together with other members of the United Nations for more equitable international economic relations which should be conducive to the elimination of underdevelopment'.

British-Romanian Co-operation

'Emphasising the good co-operation between the representatives of the two countries both at the United Nations and in other organisations and international meetings, the two ministers reaffirmed their joint wish to intensify this co-operation in the common interest of both countries, of peace, and of international co-operation.'

The Romanian Minister of Foreign Affairs, Mr Stefan Andrei, accepted Lord Carrington's invitation to pay an official visit to Britain.

Foreign Secretary's Press Conference

After his meeting with President Ceausescu, Lord Carrington told correspondents that he had explained the proposals, put forward by himself and other European Community leaders, that Soviet troops should be withdrawn from Afghanistan in exchange for an international guarantee of the neutrality of that country (see pp 73-4). The President and Lord Carrington had, 'broadly speaking, [come] to the same conclusions'. The Foreign Secretary emphasised that no plan for a solution in Afghanistan would be acceptable if it did not involve the total – not merely a token – withdrawal of Soviet troops from the country. He continued: 'I do not think the West or the rest of the world can accept a situation in which a non-aligned country has been occupied by the Soviet Union. Certainly the West must never accept the situation as it is now.' Once the Soviet Union had withdrawn, he was confident that an international guarantee of neutrality for Afghanistan could be achieved.

The European Community and ASEAN

A five-year co-operation agreement was signed in Kuala Lumpur on 7 March by the European Community and the Association of South East Asian Nations (ASEAN).[1] A meeting of the nine Community and the five ASEAN foreign ministers in Kuala Lumpur approved a joint declaration concerning the agreement and a joint statement on certain political issues. Britain was represented by the Secretary of State for Foreign and Commonwealth Affairs, Lord Carrington.

[1]The members of ASEAN are Indonesia, Malaysia, the Philippines, Singapore and Thailand.

Co-operation Agreement

The agreement provides for both commercial and economic co-operation. On trade the signatories have undertaken to accord each other most favoured nation treatment, to develop and diversify trade and to consult each other on measures likely to affect their mutual trade. The agreement aims to encourage closer economic links, the promotion of technological and scientific progress, the opening of new sources of supply and new markets and the creation of new employment opportunities. In particular it favours co-operation between companies in the two regions and improvements in the already favourable investment climate. The Community is pledged to intensify its contribution to the development needs of the ASEAN countries. A joint co-operation committee is being established to promote and supervise the various activities envisaged in the agreement.

The joint declaration signed by the fourteen foreign ministers refers to the objectives of the agreement, describes it as 'a strong manifestation of the political will of both sides to intensify . . . co-operation' and underlines the urgency of a new joint effort at international level 'to deal with major economic issues, including those in the field of raw materials, energy, trade, development, money and finance, and to formulate a new international development strategy'. The declaration also pledges the signatories to co-operate constructively in resolving outstanding issues concerning the restoration of world economic stability and a new international economic order.

Political Statement

In their statement on political issues the foreign ministers reaffirmed 'their commitment to world peace, international co-operation and understanding, economic development, social justice and human rights' and emphasised the need for all states to observe the principles of respect for the sovereignty, territorial integrity and independence of states, non-resort to force or the threat of the use of force, and non-interference in the internal affairs of other states. In this connection they strongly deplored the armed interventions by the Soviet Union in Afghanistan and by Vietnam in Cambodia, and called for the total withdrawal of foreign forces from the two countries. They took the view that the crisis in Afghanistan 'could be overcome constructively through the emergence of a neutral, non-aligned Afghanistan' (see pp 73–4), and called for an independent and neutral Cambodia free from all foreign military presence and with a genuinely representative government.

The ASEAN foreign ministers urged the international community to mobilise additional resources for increased quotas and speedier resettlement of Indo-Chinese refugees in order to relieve the political, economic and social pressure created by the refugees on their countries. The Community foreign ministers recalled that the Community and its member states had contributed to the international efforts to solve the problem and reaffirmed their intention to pursue further their action towards this goal; they also expressed their appreciation that ASEAN countries and other territories in the region had admitted refugees on humanitarian grounds. The fourteen ministers expressed the hope that Vietnam would adhere to pledges made in Geneva concerning the departure of refugees (see p 224, 1979) and they agreed that a durable solution had to be found urgently in order to resolve the refugee problem. They also appealed to all parties in Cambodia to ensure that relief supplies rapidly reached people suffering from hardship and to give full support to the humanitarian work of the United Nations and other relief organisations (see pp 19–20).

In conclusion, the Community ministers reiterated their belief that the unity of ASEAN 'is and continues to be an important element in the maintenance of peace and stability in the South-east Asian region', and welcomed the efforts of the ASEAN nations to establish a zone of peace, freedom and neutrality in the area. ASEAN ministers expressed their appreciation of the role played by the Nine as an element of balance in international relations, and of the Community's 'positive contributions to the solution of critical problems between developed and developing countries'.

Gibraltar

Britain and Spain have agreed to start negotiations concerning the question of Gibraltar.

A joint British-Spanish statement was issued in Lisbon on 10 April following talks between the Secretary of State for Foreign and Commonwealth Affairs, Lord Carrington, and the Spanish Foreign Minister, Sr. Marcelino Oreja. It said that both Governments desired to strengthen their bilateral relations thereby contributing to European and Western solidarity and that they intended to resolve the Gibraltar problem in a spirit of friendship in accordance with the relevant United Nations resolutions. Britain and Spain had therefore agreed 'to start negotiations aimed at overcoming all the differences between them on Gibraltar'. Agreement had been reached 'on the re-establishment of direct communications in the region', the Spanish Government having 'decided to suspend the application of the measures at present in force'. Future co-operation would be 'on the basis of reciprocity and full equality of rights', and both Governments looked forward to further steps which they believed would 'open the way to closer understanding between those directly concerned in the area'. To this end the two Governments would be prepared 'to consider any proposals which the other may wish to make' while recognising 'the need to develop practical co-operation on a mutually beneficial basis'.

The British Government fully maintained 'its commitment to honour the freely and democratically expressed wishes of the people of Gibraltar as set out in the preamble to the Gibraltar constitution' and the Spanish Government

reaffirmed its position on the 're-establishment of the territorial integrity of Spain' while restating its intention that in the outcome of the negotiations 'the interests of the Gibraltarians should be fully safeguarded'.

It was agreed that officials on both sides would meet as soon as possible to prepare the necessary practical steps to permit the implementation of the proposals. It is envisaged that these preparations will be completed not later than 1 June.

Foreign Secretary's Statement

Speaking in the House of Lords on 14 April (*Hansard (HL)*, Vol 408, No 111, cols 9-10), the Foreign Secretary described the agreement on the re-establishment of direct communications between Spain and Gibraltar as 'a very important step' and 'the beginning of what is likely to be a very long process'. The agreement made 'a significant contribution towards the strengthening of [Britain's] bilateral relations with Spain', and Britain looked forward to Spain's early membership of the European Community. Lord Carrington said that the agreement was also a move of 'great significance' for the people of Gibraltar and that its implications had been discussed with the Chief Minister of Gibraltar and the leader of the Opposition there. The Foreign Secretary stressed that the British-Spanish statement had reaffirmed the Government's commitment 'never to enter into arrangements under which the people of Gibraltar would pass under the sovereignty of another State against their freely and democratically expressed wishes'.

Background

In the 1960s the Spanish Government in support of a campaign to secure the return of Gibraltar to Spain imposed restrictions on the movement of people between Spain and Gibraltar. In 1969 the border was closed, as were all public telephone links, and the ferry service between Algeciras and Gibraltar was suspended. Although telephone links were restored in 1977, the other restrictions have remained in force.

Britain has undertaken never to enter into arrangements whereby the people of Gibraltar would pass under the sovereignty of another state against their freely and democratically expressed wishes. In 1967 a referendum was held in which 12,138 Gibraltarians voted to retain the link with Britain and 44 supported a change to Spanish sovereignty.

The question of Gibraltar has been considered on many occasions by the United Nations General Assembly. In the most recent resolution, passed in November 1979, the General Assembly called on Britain and Spain to make possible the initiation of negotiations with the object of reaching a lasting solution to the problem.

[For further background information, see COI fact sheet, *Gibraltar*, FS/1/79, available in English and Spanish.]

ECONOMIC AND SCIENTIFIC AFFAIRS

The Budget 1980-81

The Chancellor of the Exchequer, Sir Geoffrey Howe, presented his second Budget to the House of Commons on 26 March. The Budget coincided with the publication of the White Paper on public expenditure (see pp 123-30) and includes for the first time a medium-term financial strategy which demonstrates how the Government proposes, by reducing monetary growth and pursuing appropriate fiscal policies, to move progressively towards lower inflation, lower taxes and lower interest rates. The Chancellor described the Budget as 'a strategy for the defeat of inflation by the re-establishment of monetary control'. The measures include: a target rate of growth of the money supply of 7-11 per cent in 1980-81, falling to 4-8 per cent in 1983-84; an increase in the income tax personal allowances and in the thresholds for the higher tax rates; the abolition of the 25 per cent band for income tax; the taxation, from 1982, of unemployment benefits; proposals to encourage employee share ownership; changes in tax provisions to help small businesses; and the establishment of enterprise zones in the older urban areas to achieve industrial and commercial renewal.

THE BACKGROUND

The Chancellor began his speech to the House of Commons (*Hansard*, Vol 981, No 146, cols 1439-90) by recalling his Budget statement of June 1979 (see pp 191-7, 1979) in which he had stressed that it would take time as well as resolute commitment to the right strategy for a period of years ahead to check and then to reverse Britain's long-run economic decline. It was important, he said, for 'that strategy to reflect the right lessons of years of disappointing economic performance'.

Sir Geoffrey referred to the increased scale of government borrowing from the mid-1970s, compared with the 1950s and 1960s, and the addiction to deficit spending. It had eventually begun to be realised that the country could no longer spend its way out of recession.

He felt that in recent years the importance of the money supply and its proper control had been misjudged and that not enough attention had been paid to 'the role of private enterprise and to the importance of economic change as an agent of prosperity'. Also, although successive governments had acknowledged the need to reduce the power and privilege of organised labour, its ability to damage the economy had actually increased.

The outcome, Sir Geoffrey continued, was a steady weakening in the underlying rate of growth and a serious increase in rates of inflation. He went on: 'The measures taken following the agreement with the International Monetary Fund [IMF] in 1976 [see p 25, 1977] provided a brief respite. The public sector borrowing requirement [PSBR] fell, monetary growth declined and pay settlements moderated. The inflation rate came down in 1977 and 1978. But the lesson was not well enough learnt. The money supply was again allowed to expand too fast, partly through excessive intervention in the foreign exchange markets. Fiscal policy was eased and the situation deteriorated again.'

In 1979 the Government had begun to reduce the rate of monetary growth, had cut planned public expenditure and the share of government spending and borrowing in the nation's output and had 'acted promptly and decisively' in November (see p 377, 1979) when the monetary target seemed likely to be exceeded. It had also 'removed many unnecessary controls and obstacles to enterprise and individual effort' including those on pay, prices (see pp 162-3 and 340-1, 1979), dividends (see p 196, 1979) and foreign exchange (see pp 192, 241 and 338-9, 1979). The Chancellor's first Budget, in June 1979, had 'switched the tax burden from earnings to spending and greatly reduced oppressive tax burdens on enterprise'.

However, the Chancellor went on, there had been in 1979 further major increases in the world price of oil and of other commodities. Although the strength of sterling had to some extent cushioned their impact on domestic inflation the price of oil and other inputs to manufacturing industry had risen by 41 per cent since the beginning of 1979. The rise in the price of oil had also had severe effects on the world prospect generally. The outlook for the coming year was for a significant slowing in growth and a worsening of inflation everywhere. The annual rate of increase in consumer prices in the member countries of the Organisation for Economic Co-operation and Development rose from an average of about 10 per cent in mid-1979 to 14 per cent by

the beginning of 1980. As every major country was 'demonstrating its determination to resist this inflation by adopting a firm monetary and fiscal policy' the result was lower output and higher interest rates. These had risen since early last summer by an average of six percentage points in the major industrial countries, much the same as had happened in Britain over the same period.

Sir Geoffrey pointed out that projections published that day by the Treasury suggested a fall in output in 1980 of up to 2·5 per cent, which was roughly in line with outside forecasts. He regarded the recession as partly a consequence of the weakness in world demand, partly a consequence of Britain's own inflation and partly, but perhaps most of all, a consequence of the long-run decline of the economy. However, these influences were not insuperable. 'We can', said the Chancellor, 'most certainly get through the difficult year or two that lie immediately ahead. The important thing is not to allow the difficulties to prevent us setting our feet on the right long-run path.'

THE MEDIUM-TERM STRATEGY AND THE MONETARY TARGET

Sir Geoffrey announced the publication of the Government's financial and monetary strategy for the medium term contained in Part II of the *Financial Statement and Budget Report 1980-81* (HMSO, £3·25, ISBN 0 10 250080 0) from which Table 1 is taken. The strategy sets out a path for public finance over the next few years and is based on a target for steadily declining growth of the money supply.

Table 1
Ranges for Growth of the Money Stock (Sterling M3)*

	1980-81	1981-82	1982-83	1983-84
Percentage change during year	7-11	6-10	5-9	4-8

*The consultative document *Monetary Control* (Cmnd 7858, HMSO, £2·50, ISBN 0 10 178580 1) (see pp 131-2) explains on page iv that the way in which the money supply is defined for target purposes may need to be adjusted from time to time as circumstances change.

The Chancellor pointed out that the Government continued 'to regard the fight against inflation as the first priority. It is an illusion to suppose that we have any real choice between defeating inflation and some other course.' Inflation could not persist in the long run unless it was accommodated by an excessive expansion of money and credit. 'Restraint of the growth of money and credit is, then, essential, and it needs to be maintained over a considerable period of time in order to defeat inflation. That underlines the importance of the medium-term financial strategy.' The target range of growth of sterling M3 of 7 to 11 per cent at an annual rate in the period to mid-April 1981 (see Table 1) was based on the most recent published figures. The target thus related to the 14 months from mid-February 1980.

Monetary growth had already begun to slow down, Sir Geoffrey continued. In the first four months after the June 1979 Budget sterling M3 continued to grow at an annual rate of over 14 per cent but in the succeeding four months the rate fell to 10 per cent. Also, in the earlier period sterling M3 had been increasing more slowly than other measures of the money supply but now alternative monetary measures were growing less rapidly than sterling M3, and the narrow measure, M1, had actually fallen in the last four months. 'So the turndown in the growth of sterling M3 probably understates the extent to which the measures in the last Budget and those that I took in November [see pp 377-8, 1979] have already brought monetary growth under control', said the Chancellor.

He went on to announce an agreement with the Governor of the Bank of England that the supplementary special deposits scheme (the 'corset') (see p 19, 1974) should not be extended beyond mid-June, when the present guideline would end. 'One of the effects of the corset', Sir Geoffrey explained, 'has been to encourage the development of credit channels just outside the banking system, such as the purchase of bank acceptances by the private sector. This process will be reversed to some extent when the corset ends. So sterling M3 will be swollen as earlier distortions unwind.' However, this increase in sterling M3 would not 'signal a change in underlying monetary conditions'. The scale of this exceptional increase could not be precisely measured or predicted. The Chancellor hoped that the increase could be accommodated within the announced target; if so that would point to a further slowing in monetary growth.

Efficient methods of monetary control were needed to accompany these policies. The Government had the means to meet its medium-term objectives, and the consultative document *Monetary Control* (see p 131) would 'provide a basis for public discussion of how to improve control over short periods'.

FISCAL POLICY

The Chancellor explained that the Government did not intend to achieve this reduction in monetary growth by 'excessive reliance on interest rates'. Its financial strategy also planned a substantial reduction over the medium term in government borrowing as a percentage of national income. Government borrowing had 'made a major contribution to the excessive growth of the money supply in recent years'. Excessive government borrowing had led to high nominal interest rates and, in capital markets, to the 'crowding out' of business by the State, which had held back investment. 'From now on, however, given the shape of the Government's plans for public spending, the Budget deficit should be reduced progressively to between 1 per cent and 2 per cent of output. This would be a little below the average in the 1960s.'

The latest annual estimate for the PSBR was just over £9,000 million, said Sir Geoffrey but 'the monetary target that I have announced for the coming year will involve a substantial further slowdown in underlying monetary growth. If we

are to meet that target without putting too much of the burden on interest rates, a public sector borrowing requirement of not more than 4 per cent of national income in 1980-81 is appropriate.' This would imply a PSBR in that year of not more than about £8,500 million. Throughout the next four years, an actual fall in the level of spending was planned. 'Without these economies', the Chancellor explained, 'a coherent policy to reduce inflation would be unattainable.'

As the recent rise in oil prices made it unwise to assume that world and British output would expand faster over the next few years than over the past five, the projections for tax revenue in the medium-term strategy rested on the fairly cautious assumption that, after the recession which had been forecast for 1980, the economy would grow by an average of only 1 per cent a year up to 1983-84. The economy should be capable of much faster growth but, Sir Geoffrey commented, 'to plan spending on over-optimistic growth assumptions can involve actions that, in the event, prevent that forecast growth being achieved. We should take credit for improved growth performance only once we have firm evidence that it has taken root.' However, the sooner inflation was reduced the faster would be the rate of growth that could be achieved within the monetary framework.

OVERCOMING INFLATION

Sir Geoffrey pointed out that the past year had shown that a firm monetary policy contributed to a strong exchange rate; sterling now had some of the characteristics of a petro-currency. A strong exchange rate played an important part in diminishing inflationary pressures but also obliged British industry to restrain costs and improve its competitiveness, which required a fundamental change in attitudes. Similarly, pay settlements had to be based on what companies could afford while remaining competitive. He warned that the authorities were 'no longer in a position to engineer a major reduction in the exchange rate in order to bail out those who have sought and granted excessive pay claims. Even if we could do this, it would create more inflation before long.'

Sir Geoffrey agreed that, so long as inflation persisted, social benefits and taxation had, in a civilised society, to give some measure of price protection, 'but full protection for some is possible only at the expense of others. The proposals in this Budget recognise both the need to offset some of the effects of inflation and the fact that it is impossible to maintain the real value of all personal incomes when total national income is likely to fall.'

Monetary growth was now under better control than it had been in the mid-1970s and there were 'encouraging signs of realism in private sector wage settlements'. The underlying rate of inflation over the last six months was well below the present year-on-year rate and the Chancellor felt that there should be scope for a simultaneous reduction in government borrowing and taxes, including progress towards a 25 per cent basic rate of income tax.

PUBLIC EXPENDITURE

Sir Geoffrey said that a return to a sensible level of public spending and a reduction in taxes and government borrowing were at the heart of the Government's medium-term strategy. The plans for public expenditure showed 'for the first time ever, a progressive reduction in total expenditure throughout the lifetime of a Parliament'. The effect would be 'a marked shift in the burdens imposed by the Government and in the balance between the public and private sectors'.

Since the publication of the public expenditure White Paper in November 1979 net reductions in government spending of over £900 million had been decided for 1980-81, additional to those previously made. However, the Government had thought it prudent to set aside £325 million of this sum for the contingency reserve. Planned spending in 1980-81 at current prices was thus reduced by at least £575 million. Special sales planned for 1980-81 were to remain at the £500 million mentioned in the November White Paper (see p 333, 1979) compared with the target for 1979-80 of £1,000 million announced in the June Budget (see p 191, 1979). In the event a total very close to £1,000 million had been raised.

The Chancellor explained that, in today's circumstances, any government would have had to check the size and growth of public spending. This did not mean indiscriminate cuts in public expenditure. 'Our choices', he continued, 'have been guided by the belief that the Government should provide efficiently and realistically those services that they alone are able and best fitted to provide.' The role of the State could sensibly be reduced where it had taken over what private initiative could better achieve and where it had been reducing incentives, increasing bureaucracy and distorting markets.

Only the State could provide adequately for the defence of its citizens against external and internal threats, and the armed forces and police needed to be strengthened and improved. Accordingly, expenditure on defence was planned to grow by 3 per cent a year in real terms up to 1983-84 and that on law and order by 2·5 per cent a year. Spending on health would continue to grow exactly as planned by the last Government, at about 2 per cent a year over the period, but the cost of this increase would be partly offset by increases in charges, including in particular a prescription charge of £1 from December 1980. (However, the present wide range of exemptions from charges, including those for the elderly, children under 16 and those on low incomes, would be maintained.) These charges would yield a total of about £30 million in a full year.

Support from the taxpayer for private and nationalised industries was reduced. Provisions for housing were also reduced, reflecting both the local authorities' own reduction in building programmes and what the nation could afford in public sector housing investment and subsidies. The reduction in the education programme reflected 'a fair and sensible response to falling school rolls and a continuation of the economies to be made in 1980-81'. Spending for each pupil

would increase in real terms because, while the number of pupils was expected to fall by about 13 per cent between 1979-80 and 1983-84, spending on schools was planned to fall by only about 6 per cent. The aid programme was also reduced but remained substantial and would now be in line with what a country in Britain's present circumstances could afford.

Social security had been responsible for three-quarters of the total increase in programmes since 1973-74. The Government, no less than its predecessors, was 'committed to maintaining a social security structure that protects the weakest and most vulnerable in our society'. However, as social security now accounted for one-quarter of total public expenditure and was still growing, it could not be exempt from measures to restrain its growth where these could reasonably be made. Notwithstanding the changes that the Government was making, spending on social security was still expected to increase by nearly 4 per cent between 1979-80 and 1983-84.

Reductions in the number of civil servants were being achieved and the Secretary of State for the Environment and other ministers had been taking steps that would help local authorities to reduce their manpower.

The Chancellor pointed out that cash limits were 'the crucial instrument for ensuring that the costs of public expenditure do not run out of control'. Most of the cash limits for central government expenditure for 1980-81 were contained in the parliamentary estimates,[1] published that day. They were based on provision for increases in current costs of 14 per cent which, at the time of preparation, seemed an adequate allowance for inflation between 1979-80 and 1980-81. The projection that Sir Geoffrey was now publishing suggested, in line with those of most outside forecasters, that inflation might be a point or two higher. To increase the provision in the cash limits to accommodate the higher forecast of cost increases 'would simply be to condone and encourage inflation', said the Chancellor, adding that 'the difference between the provision in the cash limits published today and full provision for the inflation now forecast would be about £700 million. There should be scope to absorb such higher costs through greater efficiency. It will not be easy. But the unacceptable alternatives would be to cut services or increase taxes.'

Sir Geoffrey noted that the reductions he had announced were, in an important respect, not complete. He drew attention to Britain's heavy burden of government payments overseas. Examples were, first, spending on defence, especially the British Army of the Rhine (see p 97); secondly, the net contribution to the European Community; and, thirdly, overseas aid (see p 105). Relative to gross national product Britain spent more in foreign exchange on defence than any of its partners in the North Atlantic Treaty Organisation. Britain also made by far the largest net contribution to the European Community budget. Its aid programme was larger than those of the United States, Japan or the Federal Republic of Germany. The growth of these transfers had largely offset the substantial earnings of the private sector on the invisible account of the balance of payments.

The fastest growing and least justified of these transfers overseas had been Britain's large net contribution to the Community budget (see p 124). Britain was now making the largest net contribution although ranking only seventh out of the nine members in terms of gross national product per head. In addition to the budgetary contributions Britain transferred substantial resources to its partners through the artificially high prices imposed by the Community's agricultural policy.

The Chancellor explained that the figures in the White Paper on public expenditure made no allowance for the reductions that Britain was negotiating in its net contribution to the Community budget. Pending a satisfactory conclusion to those negotiations, they included the full estimated costs under present arrangements which, if not changed, would be likely to raise costs to more than £2,000 million at current prices by 1983-84. 'A successful outcome to the negotiations is therefore of the highest importance to our medium-term fiscal and monetary strategy and to the success of our attack on inflation', Sir Geoffrey said. 'The Government's determination to redress the present unacceptable situation has, I feel certain, the support of the entire House.'

SOCIAL SECURITY

Sir Geoffrey spoke of the lack of balance between social security benefits and incomes in work, which meant that the net extra reward to a low earner from working was so close to the benefits available when on social security that there was little incentive to work. The Government intended to start tackling the problem by using the tax system. First, there was the scheme announced late in 1979 whereby employers would be responsible for the payment of a minimum level of sick pay during the early weeks of sickness. This scheme should be operating from April 1982 and would bring the bulk of sickness payments into tax through the Pay as You Earn system. Secondly, unemployment benefits would be made taxable at the same time. The Government was also considering how to bring into income tax at an early date the remaining short-term benefits and the invalidity benefit, which were at present untaxed. (See pp 137-41 for full details of the proposed changes in the social security programme.)

THE TAX BALANCE

The Chancellor explained that in framing his tax measures he had been influenced by three developments in particular: high pay settlements, high oil prices and the high exchange rate. These developments had together swung the balance strongly in favour of consumers and against companies, especially those facing competition from overseas, either in home or overseas markets. He therefore saw a stronger case for reduc-

[1] *Supply Estimates 1980-81.* Cmnd 7869. HMSO, £4. ISBN 0 10 178690 5.

ing the real tax burdens on companies and small businesses than on private individuals. However, he pointed out that not all companies had lost out. The oil companies were making large windfall profits and the banks were gaining from high interest rates; some of these were in a position to contribute more by way of taxation. In any event, the financial position of most sections of business would be eased as interest rates fell.

COMPANY TAXATION

North Sea Oil

'The Government's objective in taxing North Sea oil operations', Sir Geoffrey explained, 'must be to strike a balance between the nation's claim to a share in the profits from this national resource and the right of those engaged in the risky business of oil exploration and development to a fair return on their efforts.' Since the June 1979 Budget world oil prices had increased dramatically and North Sea oil prices, which followed world prices, had risen by more than half, from about $20·70 a barrel to about $33·75.

As this substantial change had greatly favoured the oil companies, the Chancellor proposed, for chargeable periods ending on 30 June 1980 and subsequent periods, to increase the rate of petroleum revenue tax (PRT) from 60 per cent to 70 per cent. He also proposed, at the request of the industry, to rectify some anomalies in the PRT rules concerning both transfers of North Sea interests between oil companies and the taxation of gas. Special PRT provisions would be introduced for fields spanning the median line between the United Kingdom and the Norwegian continental shelves. The structure of PRT gave companies very early relief for capital expenditure so that it was not collected until a considerable time after a field had come on stream. As the increases in oil prices had greatly strengthened the industry's cash position the Chancellor was satisfied that PRT could be paid earlier. Companies which were liable to PRT for the chargeable period to 30 June 1981 would now be required to make, at the beginning of March 1981, an advance payment for the chargeable period at a rate of 15 per cent based on 1980 liabilities. Advance payments for later chargeable periods would be made in the same way but not necessarily at the same rate and could be offset against normal payments of PRT. The total changes in oil company taxation were expected to bring in an extra £535 million, making a total of PRT, corporation tax and royalties for 1980-81 of a little over £4,000 million. 'We are thus ensuring that the nation as a whole secures a proper share of North Sea profits this year', said Sir Geoffrey.

He went on to warn that, although the additions to national income made by North Sea oil (mainly through increased government revenues and oil company profits) were large, they ought not to be exaggerated. Even in the years of peak production later in the 1980s no more than 6 per cent of gross national product was expected to come from the North Sea, which was equivalent to perhaps two years of the kind of economic growth achieved in the 1950s and 1960s. 'This makes it all the more important that we should use the oil wisely, with an eye to our long-term economic interests', the Chancellor said. 'In particular, we should take the opportunity offered by the growth of oil revenues to bring the level of public sector borrowing steadily down, and this is what our medium-term strategy envisages.'

Leasing

Sir Geoffrey noted that leasing, in which the banks had been heavily involved, had grown rapidly in the past few years. Underlying that growth had been the 100 per cent capital allowance which could be claimed on assets bought for leasing. The present rules applied to equipment leased to British industrial and commercial companies which would qualify in their own right for these tax incentives if they purchased the equipment for themselves. The Chancellor did not propose any changes in transactions of that kind as such leasing finance had become an important, and in many cases essential, source of finance for investment in manufacturing industry. However, as under present tax rules these 100 per cent allowances applied to all leased equipment, leasing effectively extended the benefits of tax incentives to certain users, such as overseas companies, certain public bodies in Britain and consumers, who would not qualify for tax incentives if they had purchased the equipment themselves. Sir Geoffrey proposed to end these anomalies and so, from 1 June 1980, expenditure on leasing involving these users would normally qualify only for 25 per cent tax allowances. There would be transitional provisions for leased television sets. These provisions would replace, from 1 June 1980, the temporary provision for foreign leasing which the Chancellor had proposed in October 1979 (see p 338, 1979) when announcing the abolition of exchange control. However, the Motability Scheme for leasing cars to the disabled would continue to benefit from the existing provisions.

Company Liquidity

The Chancellor felt that the Government could give major tax reductions to companies which had pressure on their liquidity only at the expense of much higher personal taxation or higher borrowing and thus higher interest rates. He believed that the greatest service which he could perform for business was to reduce the burden of financing the public sector and thus to reduce interest rates. He had, therefore, given precedence to that objective.

Corporation Tax and Stock Relief

Sir Geoffrey announced that the Government would publish later in 1980 a consultative document reporting the results of its general review of the present corporation tax provisions. Meanwhile, he did not think it right to change the rate of corporation tax or to make major changes in its structure. However, in order to help companies concerned about the recovery charges which they would face as a result of reductions in stock levels likely to arise either because of the general pressure on liquidity or because of the steel

strike,[1] he proposed to allow a substantial part of the stock relief recovery charge consequent upon a reduction of stocks to be deferred for one year. This change would be subject to certain conditions, dependent on the extent to which stocks were financed on trade credit. The new relief would be given for business accounts ending after 1979-80. The Chancellor conceded that further relief was justified in the cases referred to but pointed out that there was criticism that the present stock relief might confer an unjustifiable advantage in certain circumstances. He intended to legislate in 1981 in respect of accounts on which tax would generally be payable on 1 January 1982, which would give enough time for consultation.

Redundancy

Relief would be provided for redundancy payments in excess of the statutory minimum paid when a business stopped trading.

INDIRECT TAXATION

Sir Geoffrey referred to the substantial switch he had carried out in his June 1979 Budget in the balance of taxation from direct to indirect taxes (see p 193, 1979). He did not intend to go further in that direction this year but did intend to ensure that the real yield of indirect taxation was not eroded by inflation. The immediate effect of his proposed changes on the Retail Price Index would be to raise it by just over 1 per cent, he explained later, but in the longer run, by contributing to the reduction in the budget deficit, they would help 'to ensure that inflation is brought down and stays down'.

Value Added Tax

The year 1980-81 would be the first in which the full yield of the 15 per cent value added tax (VAT) rate would be available, and it would amount to some £12,450 million, Sir Geoffrey told the House. Although he proposed no change in the 15 per cent standard rate he was making a number of technical changes to ease the administrative burdens borne by small businesses. To rectify an anomaly, lubricating and certain other oils, at present zero-rated, would be charged at the full rate from 1 May 1980.

Alcoholic Drinks and Tobacco

Sir Geoffrey proposed to increase the duties on drinks by amounts which, including VAT, would represent about 2p on the price of a pint of typical draught beer, 8p on the price of a bottle of table wine and 50p on the price of a bottle of whisky. The tobacco duty would be raised by an amount, including VAT, representing 5p on the price of a typical packet of 20 king-size cigarettes. There would be consequential increases for most other alcoholic drinks and tobacco products but rather less than the full amount on pipe tobacco.

[1]The strike was called on 2 January following a dispute over a pay offer made by the British Steel Corporation in conformity with the Government's cash limits. After protracted negotiations, a settlement was reached on the basis of recommendations made by an official inquiry and the strike was called off on 1 April.

Betting and Gaming

The Chancellor did not propose any changes in the general betting duty or the pool betting duty. However, the Government had been persuaded by some of the criticisms of the present duty on casinos made by the Royal Commission on Gambling (see pp 351-2, 1979). That duty depended heavily on rateable value and was not an equitable tax as the more profitable casinos were severely undertaxed. From 1 October 1980, therefore, the present duty would be replaced by one related more closely to the profitability of casinos and designed to produce about two-and-a-half times as much revenue in a full year. The duty on bingo would at about the same time be increased from 5 per cent to 7·5 per cent. Provision would also be made in the Finance Bill for restructuring the duty on gaming machines.

Vehicle Excise Duty

Vehicle excise duty (VED) would be retained, Sir Geoffrey said, but staff savings would be achieved by streamlining its administration along the lines already proposed by the Minister of Transport (see p 389, 1979). The Minister was therefore announcing that day the replacement, from October 1980, of four-monthly licences by six-monthly licences. There would be increases in VED on most vehicles of about 20 per cent and on the heaviest lorries of about 30 per cent. The annual duty on cars would thus increase from £50 to £60. The larger increase on the heaviest lorries would reflect the high road costs which they imposed on the community. In order to encourage the further development of electric vehicles, which were much cleaner and quieter than vehicles powered by internal combustion engines, VED on them would be abolished.

Petrol, Derv and Oil Duties

The Chancellor pointed out that the price of petrol in Britain remained well below that in any other member country of the European Community. An increase in duty was justified this year to ensure that Britain's oil resources were not wasted. The duty on petrol would be increased by the equivalent, including VAT, of 10p a gallon, and that on derv by about 4p a gallon. The duty on heavy oil other than derv would be increased by about ½p a gallon.

Fringe Benefits

As the burden of income tax was reduced, the Chancellor said, he hoped to see a decline in the provision of benefits in kind. It was consistent with that view for him to impose a reasonable charge to income tax on benefits which remained. The scale figures used for measuring the benefit of a company car for tax purposes would be increased by 20 per cent from April 1981. At the same time the qualifying annual mileage for business use, above which a reduced rate of tax is charged, would be reduced from 25,000 miles to 18,000 miles. The proportion of the value of such objects as suits of clothing and television sets provided for employees taken as a measure of the annual taxable benefit would be doubled, from 10 per cent to 20 per cent. Where the items con-

cerned were subsequently acquired by the employee for less than their true value, an effective charge would be imposed. Steps were also being taken to increase from 9 per cent to 15 per cent the rate of interest used to measure the value of beneficial loans to employees and to raise to £200 the limit below which the benefit of such loans would not be taxable.

Fringe benefits were charged to tax only if the employee earned more than £8,500 a year. The Chancellor said he had asked the Inland Revenue to consult employers and others about the administrative problems that might be involved in abolishing that threshold.

INCOME TAX

Sir Geoffrey said that the cuts in income tax he had made in the June 1979 Budget (see pp 196-7, 1979) were an important start in reducing the oppressive burden of direct taxation. 'At every income level, taxpayers now retain a significantly larger share of their incomes, which they are free to spend or save as they choose. I intend to do more in the future, but at a time when output is falling and we are making further heavy cuts in public expenditure I cannot afford to protect income taxpayers fully from the effects of inflation. This, then, must be a year of consolidation.' At first sight, that would suggest increases in the personal allowances falling some way short of the rise in prices during 1979. However, this would have a number of undesirable effects, including lowering the starting point of income tax in real terms compared with a year ago. The Chancellor said he would, therefore, increase the main income tax allowances by about 18 per cent, in line with the rise in prices and in conformity with the indexation requirement of the 1977 Finance Act (see p 342, 1977). This would bring substantial relief to all taxpayers. In order to afford this he intended to remove the lower rate band of taxation, levied at 25 per cent on the first £750 of taxable income. The basic rate of 30 per cent and the higher rates would remain unchanged.

The single allowance would thus be increased by £210 to £1,375 and the married allowance by £330 to £2,145. The corresponding allowances for people over 65 would go up by £280 to £1,820 and by £440 to £2,895. The income limit for the age allowance would go up to £5,900. The additional personal allowance available mainly to single parents would go up by £120 to £770.

In view of the substantial improvements given to higher-rate taxpayers in the June 1979 Budget (see pp 196-7, 1979) major relief would not, in the Chancellor's view, be appropriate this year. He pointed out that Britain's progressive tax system operated in such a way that those who paid tax at higher rates experienced sharply increasing tax burdens in times of inflation. However, he had decided not to raise the higher-rate thresholds fully in line with inflation, as he had done for the main personal allowances, but to put them up by only about 11 per cent. The threshold for the higher rates would be raised to £11,250 and that for the top rate of 60 per cent to £27,750, with corresponding increases at the intervening points. The increase this year in the threshold for the investment income surcharge would be only 10 per cent, raising it to £5,500. 'However, with a view to consistent treatment in future years,' the Chancellor went on, 'I shall include provisions in the Finance Bill that should ensure, with effect from next year, that the higher-rate thresholds and bands, together with the investment income surcharge threshold, are covered by indexing legislation in the same way as the main personal allowances.'

The proposed changes in income tax would be given effect when new tax tables had been printed and distributed. They would be made together and would produce a net increase in take-home pay on the first pay day after 31 May 1980.

Other Income Tax Proposals

Sir Geoffrey proposed to exempt from tax the payments made to holders of certain gallantry awards such as the Distinguished Conduct Medal and the Conspicuous Gallantry Medal. These would in future be treated in the same way as annuities payable to holders of the Victoria Cross and the George Cross. He also proposed to increase the present single allowance that widows received for the tax year in which they were bereaved, bringing it, at its maximum, up to the level of the married allowance. Later in 1980 a consultative document would be issued on the treatment for tax purposes of husband and wife.

PROMOTING PRIVATE ENDEAVOUR

Sir Geoffrey had progress to report in three important areas where he believed that fiscal reform could encourage private endeavour. These were housing, the national heritage and voluntary organisations.

Housing

He said that the Government wished 'to encourage the private provision of housing as well as wider home ownership. Home ownership adds to the quality of life. Private provision of housing means we can save public resources for other areas where a private sector alternative is not available.'

The Chancellor proposed to maintain the mortgage interest relief ceiling at £25,000 but, to help first-time buyers in particular, he intended to raise the starting point for stamp duty on transfers of property by £5,000 to £20,000. The limits for reduced rate bands would also be increased by £5,000 so that the full rate of 2 per cent would be reached at £35,000. He also proposed an additional relief from capital gains tax to help those who let part of their homes. At present these house-owners can face an unexpected tax charge when they sell. The change would encourage letting and contribute to the better use of the housing stock.

The National Heritage

The House of Commons had already passed a Bill to set up the National Heritage Fund (see p 95), said Sir Geoffrey, and the Finance Bill would

include a provision to treat it as a charity for tax purposes. The fund would be set up with an initial amount of about £12 million at its disposal and the Government would make an annual contribution, including the amount needed for the continuation of the acceptance-in-lieu system. In order to make it possible, both today and in the future, for owners of historic houses to look after them on behalf of the nation as a whole the Chancellor intended to recast substantially the maintenance fund provisions, set up by the previous Government, for the support of these houses. The proposals would apply to the maintenance of buildings, historically associated contents, gardens and land of historic, scenic and scientific interest. 'The overriding condition will, of course, be that the public should have reasonable access,' Sir Geoffrey explained.

Voluntary Effort

The Chancellor expressed the view that it was important to help charities and to stimulate private benefactors and helpers. A partnership between government and voluntary effort would be the best way of meeting many pressing social needs particularly when state spending had to be cut back. He proposed to double, to £200,000, the capital transfer tax exemption for bequests to charities, and to exempt wholly from development land tax all future disposals of land by charities. Income tax relief for payments to charities made under deeds of covenant, hitherto limited to the basic rate, would be extended to the higher rates, subject to a ceiling of £3,000 a year. A minor easing of stamp duty on deeds would be made and the period of tax relief on deeds of covenant would be reduced from seven years to four years.

ENCOURAGING PERSONAL INVESTMENT

The Chancellor expressed his desire to reverse the trend of the last 20 years whereby the proportion of the equity of British companies held in direct individual ownership had been almost halved. 'It is generally agreed', he went on, 'that share ownership and profit-sharing can help in developing employees' understanding of, and commitment to, business and industry. I believe that share ownership can also spread a wider understanding of the role for risk-taking and initiative in the economic system.' He had two main sets of proposals. First, he proposed to make more generous the provisions introduced by the previous Government in 1978 to encourage profit-sharing (see p 165, 1978). He intended to raise from £500 to £1,000 a year the value of shares allocated to any one employee which could qualify for tax relief; to reduce from five years to two the period after which employees could sell their shares; and to cut from ten years to seven the period after which they could withdraw them free of income tax. Secondly, legislation would be reintroduced similar to that of 1973 (see p 121, 1973) enabling employees to be given options to buy shares in their companies without incurring liability to income tax. As in 1973, this would be linked to a scheme for contractual savings. 'These measures will help to fulfil our promise to encourage employee share ownership and provide the incentive to save and build up capital', the Chancellor said.

Two other changes concerned life insurance – to correct an anomaly, the rate of tax relief would be reduced to 15 per cent with effect from 6 April 1981 – and traded options, which were at present anomalously treated as wasting assets for capital gains tax purposes, but would in future be treated on the same basis as share warrants.

ENTERPRISE

Sir Geoffrey announced a series of measures intended to increase the wealth-creating vitality of the economy. 'That means giving greater encouragement to the processes of economic change, and improving incentives to the enterprise sector', he explained. 'For the mainspring of economic vitality it is now widely agreed that we must look to private initiative, widely dispersed and properly rewarded. In truth, enterprise means jobs.'

Capital Taxation

Capital taxation was rightly regarded, the Chancellor said, 'as a severe discouragement to those seeking to build up a business and pass it on to the next generation'. The Government had, as he had promised last year, subjected capital taxation to a thorough review. 'Representations from a large number of bodies have confirmed that the damage done by these taxes in their present form is out of all proportion to their yield'. While there was a place for capital taxation, in particular a charge on death, change was needed. Although constrained by Britain's financial position he was able to propose changes which would be of particular help to smaller businesses. In order to take account of inflation he proposed to raise the threshold for capital transfer tax (CTT) to £50,000. Because of the 50 per cent relief for small businesses – which would remain, as would the comparable relief for agriculture – a person transferring a business worth £100,000 would pay no CTT if there were no other assets.

A reduction in the scale of rates above the new threshold was not possible at the moment. However, there were some minor changes designed to reduce administration. For capital gains tax (CGT) Sir Geoffrey proposed to replace the present £1,000 exemption, which is progressively withdrawn above £5,000, by a straightforward allowance of £3,000. This change, which would operate from 6 April 1980, would remove from tax half the cases at present liable. As a corollary there would be an exemption for the first £1,500 of gains for trusts, and investment and unit trusts would be exempted from CGT although investors in such trusts would remain liable if their own gains in the year exceeded the new exemption limit. Finally, the present double charge on gifts which arises from the overlap between CTT and CGT, would be removed by the provision of rollover relief for the latter.

Development Land Tax

The Chancellor recalled that in his June 1979 Budget he had reduced the rate of development land tax (DLT) to 60 per cent and increased the exempt slice to £50,000 (see p 194, 1979). He had said on that occasion that there would be no further reduction in the rate and no early increase in the exempt slice; that remained the position. However, he had received representations from many quarters that the tax inhibited development because of uncertainty about the amount chargeable, which could normally be ascertained only once development had started. The necessary legislation would be added to the Finance Bill at an appropriate stage to deal with this point. There would also be a number of other detailed improvements. All these changes were designed to free the market and to encourage development.

Demergers

For many years, Sir Geoffrey said, both government and industry had favoured mergers and amalgamations. 'No doubt mergers have brought advantages in some cases', he went on, 'but . . . I believe that there are cases where businesses are grouped together inefficiently under a single company umbrella. They could in practice be run more dynamically and effectively if they could be "demerged" . . . and allowed to pursue their own separate ways under independent management. The present tax rules can in practice effectively discourage demergers of that kind, by charging the assets of the "demerged" company to advance corporation tax and income tax as distributions.' He therefore proposed to bring forward during the passage of the Finance Bill measures to ease the tax charge on such distributions, subject to certain safeguards where they were concerned solely with the genuine splitting off of independent trades within the corporate sector.

Specific Measures to Encourage Small Businesses

Sir Geoffrey welcomed the development in recent years of estates of small industrial workshops for separate letting to small businesses. He proposed a small workshops scheme which would enable industrial buildings allowances of 100 per cent to be claimed on the construction of small industrial buildings. The scheme would run for three years and would simplify the present administrative arrangements. He would also make provision for industrial buildings allowances to be given on the construction of industrial buildings rather than on their first lettings. In addition, the Secretary of State for the Environment intended to consult on relaxation of planning controls over changes of use as between light industry and warehousing for small units. The Secretary of State for Industry intended to make £5 million available to build 1,000 new nursery factory units in assisted areas in co-operation with the private sector.

The Chancellor went on to propose a new venture capital scheme whereby losses on equity investment in unquoted trading companies incurred after 5 April 1980 could be set off against income.

He also proposed to relax the conditions for tax relief for interest paid on money borrowed for investment in, or lending to, a close company[1] by abolishing the condition that an investor must have worked for the greater part of his time in the company's business.

The present provisions under which a close company might be required to justify the amount of profits which it wished to retain undistributed in the business would be removed by the abolition of the apportionment of trading income both of close trading companies and of members of trading groups. 'These changes', the Chancellor said, 'will cut out a thicket of complex tax provisions, which are time-consuming for the small trading business, and a real impediment to growth.'

The rate of corporation tax for small firms would be cut from 42 to 40 per cent (compared with the full rate of 52 per cent). At the same time the qualifying limits would be raised to £70,000 for the full tax relief and £130,000 for the marginal relief from the inflationary rise in the value of stocks and work in progress.

In order to help the self-employed to be able, with tax assistance, to make adequate provision for their retirement, the Chancellor was raising the limits on retirement annuity relief. The normal percentage of earnings qualifying for tax relief would rise from 15 per cent to 17·5 per cent and the ceiling on the premiums qualifying for relief would be abolished.

Other Changes in Business Taxation

Following consultations with industry, Sir Geoffrey proposed that the costs to small firms of raising business loan finance should be allowed for tax purposes. Relief would also be given for pre-trading expenses provided these expenses would have been allowable if the business had been trading when they were incurred. Certain changes would also be made in the tax deduction scheme for the construction industry which would lighten the administrative burden and change certain features which at present operated harshly.

Finally, changes were being made in the arrangements for VAT in order to ease the administrative burden. Accordingly, from midnight that day the registration threshold would be increased from £10,000 to £13,500. The de-registration limit would be increased from 1 June 1980. At the same time the relief from payment of tax on stocks and assets when a person de-registered would be raised from £50 to £250.

'Despite the severe financial restrictions', said the Chancellor, 'we are thus giving help to smaller businesses at many, many points where the system bears too hard. Individually, relatively few of the measures could be described as of major importance, but taken together they represent a significant step forward in making this country one in which enterprise will be properly rewarded and thus flourish again.'

ENTERPRISE ZONES

Sir Geoffrey pointed out that in some parts of the economy, most notably the older urban areas,

[1]A close company is one under the control of five or fewer participants or participants who are directors, however many such directors there may be.

increasing public authority involvement seemed to have been counter-productive. 'The planning process', he said, 'has all too often allowed, even caused, whole areas at the heart of some of our most populous cities to be laid to waste for years, even decades.' Even when plans were finally made the public purse was often unable to provide the funds or the enterprise to match the planners' aspirations. When private enterprise might have been able to do something it had generally been stifled by rules and regulations and by a tax system which paid no regard to these special problems. The Government was accordingly proposing the establishment, in the first instance, of about half a dozen enterprise zones, with the intention that each should be developed with as much freedom as possible for those who worked there to make profits and to create jobs. Each would cover perhaps 500 acres (a little over 200 hectares). Within them two major tax incentives would be available: 100 per cent capital allowances for both industrial and commercial buildings and complete relief from DLT. These zones would also enjoy the following benefits: 100 per cent derating of industrial and commercial property; a drastically simplified planning scheme; exemption from the scope of industrial training boards, with consequent exemption from industrial training levies; accelerated handling of applications for warehousing free of customs duty; minimal requests from government for statistical information; and abolition of the remaining industrial development certificate procedures. 'I hope and believe that an imaginative experiment along these lines may succeed where conventional policies have proved inadequate', Sir Geoffrey said. The Government would consult local authorities and other interests before making decisions on individual areas.

CONCLUSION

The Chancellor felt that 'the disappointments of the last decade spring from illusions that have persisted too long; the illusion that we can pay ourselves what we have not earned; the illusion that Governments may go on borrowing when they dare not tax; and, most foolish of all, the illusion that we can somehow strike our way to higher living standards. The essential condition for success in the 1980s is that we should turn our back on those illusions and that we should have the courage over a period of years to carry through the realistic policies to which there is no alternative.'

Nothing would be easy in the years immediately ahead, Sir Geoffrey warned, but beyond that 'the strategy offers hope of real success. It is a strategy for the defeat of inflation by the re-establishment of monetary control. It is a strategy for the restoration of prosperity by the encouragement of enterprise . . . . The strategy outlined in this Budget is designed to do what is necessary and so lay foundations for the success which is well within the grasp of the British people.'

BUDGET STATISTICS

Tables 2, 3 and 4, taken from the *Financial Statement and Budget Report 1980-81*, show the major items in the expected revenue and expenditure of central Government and its borrowing requirements for 1980-81.

DEBATE ON THE BUDGET

Opposition View

Mr Denis Healey, speaking for the Official Oppo-

Table 2
Summary of Central Government Transactions

£ million

	1979–80 Budget forecast	1979–80 estimated outturn	1980–81 forecast
Consolidated Fund			
Revenue	51,013	53,369	65,415
Expenditure	59,371	60,753	73,175
Deficit	8,358	7,384	7,760
National Loans Fund			
Consolidated Fund deficit (as above)	-8,358	-7,384	-7,760
Other transactions:			
Receipts	8,150	8,460	10,000
Payments	-10,119	-10,505	-12,905
Total net borrowing by the National Loans Fund	-10,327	-9,429	-10,665
Other funds and accounts (net)	+763	+1,165	+1,352
Central Government Borrowing Requirement	**-9,564***	**-8,264**	**-9,313**

*£8,643 million including the actual receipts from the special sales of assets.

Table 3
Taxation and Miscellaneous Receipts

£ million

	1979–80 Budget forecast	1979–80 estimated outturn	1980–81 forecast
Taxation			
Inland Revenue			
Income tax	19,655	20,500	23,830
Surtax	10	11	8
Corporation tax*	4,850	4,650	4,860
Petroleum revenue tax	730	1,435†	2,560
Capital gains tax	390	410	490
Development land tax	20	25	25
Estate duty	25	30	17
Capital transfer tax	360	400	400
Stamp duties	550	610	670
Total Inland Revenue	*26,590*	*28,071*	*32,860*
Customs and Excise			
Value added tax	8,325	8,000	12,450
Spirits, beer, wine, cider and perry	2,400	2,395	2,825
Oil	2,900	2,925	3,650
Tobacco	2,550	2,580	2,775
Betting and gaming	410	400	475
Car tax	510	515	575
Other excise duties	10	10	10
European Community own resources‡			
Customs duties, etc	860	935	950
Agricultural levies	285	240	290
Total Customs and Excise	*18,250*	*18,000*	*24,000*
Vehicle excise duties	1,148	1,137	1,411
National insurance surcharge	2,952	2,964	3,509
Total Taxation	**48,940**	**50,172**	**61,780**
Miscellaneous Receipts			
Broadcast receiving licences	383	427	535
Interest and dividends	310	270	300
Other§	1,380	2,500	2,800
Total	**51,013**	**53,369**	**65,415**
*Corporation tax receipts include advance corporation tax			
Gross	1,630	1,925	1,800
Net of repayments	1,580	1,815	1,700

†The Budget forecast did not include the receipts amounting to £709 million under the Petroleum Revenue Tax Act 1980.

‡Customs duties and agricultural levies are accountable to the European Community as 'own resources'.

§Includes the 10 per cent of 'own resources' refunded by the European Community to meet the costs of collection.

sition, said on 27 March (*Hansard*, Vol 981, No 147, cols 1679-95) that manufacturing industry was now facing a severe cash squeeze and the prospect of massive and mounting bankruptcies. However, the Chancellor was starting his four-year recovery programme with a blow to British industry from which it might never recover. He spoke of 'intolerably high interest rates' which, however, had done nothing so far to control the money supply. 'Their purpose', he said 'is to reduce bank lending to companies . . . yet bank lending to companies remains high and is likely to go higher, precisely because of the effects of the Budget itself on companies' cash flow. The only real result of the exceptionally high interest rates is to worsen industries' cash position still further by making it more expensive for them to hold stocks . . . and make it more difficult for them to compete both at home and abroad by keeping the value of the pound far above the level that is justified by our comparative economic performance.'

In Mr Healey's view, the money supply targets were 'far too high still for a period when the retail price index is set to increase to above 20 per cent'.

The biggest economic error in the Budget was the fiscal error of aiming to cut the PSBR in

Table 4
Supply Services and Consolidated Fund Standing Services

£ million

	1979–80 Budget forecast	1979–80 estimated outturn	1980–81 forecast
Supply Services			
I. Defence	8,463	9,008	10,668
II. Overseas services	1,291	1,246	1,391
III. Agriculture, fisheries and forestry	644	663	725
IV. Trade, industry, energy and employment	3,078	3,142	4,150
V. Government investment in nationalised industries	1,044	1,232	648
VI. Roads and transport	1,491	1,529	1,700
VII. Housing	3,020	3,018	3,422
VIII. Other environmental services	411	394	465
IX. Law, order and protective services	1,562	1,579	1,988
X. Education and libraries, science and arts	2,105	2,124	2,656
XI. Health and personal social services	7,681	8,009	10,582
XII. Social security	6,011	6,105	7,276
XIII. Other public services	1,311	1,379	1,676
XIIIA. House of Commons administration	—	11	11
XIV. Common services	1,489	1,446	1,530
XV. Northern Ireland	924	862	982
XVI. Rate support grant, financial transactions, etc	11,633	11,853	14,742
Total	*52,158*	*53,600*	*64,612*
Revised and supplementary provision (net)	500	—	153
Total Supply Services	**52,658**	**53,600**	**64,765**
Consolidated Fund Standing Services			
Payment to the National Loans Fund in respect of service of the national debt	3,850	4,105	4,950
Northern Ireland – share of taxes, etc	883	987	1,136
Payments to the European Community, etc	1,937	2,014	2,301
Other services	43	47	23
Total Consolidated Fund Standing Services	6,713	7,153	8,410
Total	**59,371**	**60,753**	**73,175**

money terms at a time of high inflation and substantial spare capacity in the economy. On public expenditure Mr Healey felt that many of the cuts would be achieved by increases in charges, which would mean further increases in the Retail Price Index. Some of the cuts in cash limits would be brought about through cuts in capital spending; Mr Healey felt there would be 'savage reductions in the standard of the public services'.

He thought there were two surprising decisions in the White Paper on public expenditure. The first was the increase in the volume of defence spending by 3 per cent a year for the next four years which, he said, would take place during a period of no real economic growth. The second was the failure of the Government to take into account a reduction in Britain's contribution to the European Community budget. Mr Healey suggested that the Government should now announce that a reduction of £1,000 million in that contribution would form a firm basis in the Government's budgetary calculations for the next four years and that any shortfall which arose in negotiations would be made good by an appropriate reduction in Britain's VAT contribution.

Public Expenditure Plans

According to the White Paper on public expenditure plans, published on Budget day, 26 March,[1] the Government intends to reduce progressively the volume of total public expenditure over the next four years, to a level in 1983-84 about 4 per cent lower than in 1979-80. Expenditure in 1982-83, the last year covered by the plans of the previous Government[2] is now planned to be 11·5 per

[1] *The Government's Expenditure Plans 1980-81 to 1983-84.* Cmnd 7841. HMSO, £6·25. ISBN 0 10 178410 4.

[2] *The Government's Expenditure Plans 1979-80 to 1982-83.* Cmnd 7439. HMSO, £4·25. ISBN 0 10 174390 4 (see pp 32-7, 1979).

cent (nearly £9,000 million at 1979 survey prices) lower than in those plans. Planned expenditure in 1980-81 has also been reduced since the publication in November 1979 of the short White Paper on plans for 1980-81,[1] the main reduction being in housing. The reduction under negotiation in Britain's net contribution to the European Community is not included in the present plans but it will increase the savings shown. Planned expenditure on defence, law and order, health and social security is to rise over the survey period; expenditure on the industry, energy, trade and employment programmes, housing, nationalised industries' borrowing and education is to be substantially reduced (real expenditure per pupil increasing between 1979-80 and 1983-84, according to the Chancellor of the Exchequer (see p 114), because numbers are expected to fall by proportionally more than spending on schools).

A summary of the White Paper is given below. As it was published at the same time as the *Financial Statement and Budget Report 1980-81* (HMSO, £3·25, ISBN 0 10 250080 0) it does not include a separate statement of the economic background to the public expenditure plans (see pp 112-23).

Introduction

The Government intends to reduce progressively the volume of public expenditure over the next four years. This marks a substantial change from the plans published by the previous Government in January 1979 and is central to the achievement of the objectives set out in the short White Paper published by the present Government in November 1979. These objectives are: to bring down the rate of inflation and interest rates by curtailing the growth of the money supply and controlling government borrowing; to restore incentives; and to plan for spending which is compatible both with the objectives for taxation and borrowing and with a realistic assessment of the prospects for economic growth.

The plans for 1980-81 have been reduced since the publication of the November White Paper which showed the result of the Government's first scrutiny of the existing plans for 1980-81 and was designed to stabilise public spending for the time being. The continuing growth in the money supply, which required corrective action by the Chancellor of the Exchequer in November (see pp 377-8, 1979), together with worsening economic prospects generally, showed the need for further reductions in planned expenditure, which are incorporated in the present White Paper. The savings indicated will be increased by the reduction under negotiation in Britain's net contribution to the European Community. The Government is aiming at a fundamental change in the present arrangements. Negotiations are still in progress but if present arrangements are continued the full estimated net cost to Britain would rise to £1,550 million by 1983-84. (The forecasts in Table 4 are accordingly in italics.) The projection takes into account forecasts made by the European Commission which assume that expenditure from the Community budget will not be constrained by the 1 per cent limit on Community revenue from value added tax (VAT) and also that agricultural support will continue to increase at the rate of previous years. Although the Government does not accept either assumption, it is not at this stage possible to make reliable projections of the different outcomes which could result if the 1 per cent VAT limit is sustained.

Spending plans for the latter part of the period covered are expressed mainly in broad totals, since most plans as far ahead as that have still to be finalised. The Government believes that the degree of detail given in earlier White Papers for years so far ahead implied too great a degree of precision, and is considering whether in future surveys the period covered should be shortened. Expenditure figures are at 1979 survey prices.

Totals

Table 1 shows the plans for the main aggregates of public expenditure for each year up to 1983-84 together with an early estimate for the outturn in 1979-80.

In 1980-81 the combined effect of the changes announced in the November 1979 White Paper and those made since is to reduce expenditure by about 5·5 per cent or £4,000 million below that planned by the previous Government in its White Paper of January 1979. 'The Government is determined not merely to halt the growth of public expenditure but progressively to reduce it. The reduction achieved in 1980-81 is only the beginning of a trend which provides for a level of public expenditure in 1983-84 about 4 per cent lower than the expected outturn in 1979-80. The reduction under negotiation in the net contribution to the European Community will bring a further saving. Even without allowing for this, expenditure in 1982-83, the last year covered by [the January 1979 White Paper], will be 11½ per cent . . . lower than planned by the previous Government.'

The changes made by the Government to the plans in the January 1979 White Paper are shown in Table 2. The biggest reductions in 1982-83 are in the housing programme, the industry, energy, trade and employment programmes, the provision for net borrowing by the nationalised industries and the education programme. Provision for defence (see p 96) and law and order is increased.

Changes in 1980-81

Table 3 shows the changes to expenditure programmes for 1980-81 since the appearance of the November 1979 White Paper; the main change is in housing. There is also a redistribution between the different forms of nationalised industries' external financing – government lending, overseas and market borrowing, and grant assistance – together with the exclusion from the figures of British Aerospace (see p 129). Plans for 1980-81 and the later years also include the additional savings in Civil Service staff costs

[1] *The Government's Expenditure Plans 1980-81*. Cmnd 7746. HMSO, 70p. ISBN 0 10 177460 5 (see pp 333-7, 1979).

Table 1

Public Expenditure Plans

£ million at 1979 survey prices

	Outturn 1979-80 estimate	Plans 1980-81	1981-82	1982-83	1983-84
1 Central government	52,032	51,665			
2 Local authorities	18,617	17,470			
3 Certain public corporations	1,068	916			
4 Expenditure on programmes	71,716	70,051	68,600	66,900	66,400
5 Contingency reserve	84*	1,000	1,200	1,500	2,000
6 Debt interest	3,300	3,500	3,500	3,300	3,000
7 Total public expenditure before shortfall and special sales of assets	75,100	74,551	73,300	71,700	71,400
8 Expenditure on programmes and contingency reserve (4 + 5)	71,800	71,051	69,800	68,400	68,400
9 Net overseas and market borrowing of nationalised industries†	–600	–50	–300	–300	–500
10 Special sales of assets	–1,050	–500	–50	–50	–50
11 Planning total‡	70,150	70,501	69,450	68,050	67,850
12 General allowance for shortfall	–250	–1,000	–750	–750	–750
13 Planning total after shortfall	69,900	69,501	68,700	67,300	67,100
14 Percentage change on previous year	+0·4	–0·6	–1·2	–2·0	–0·3

* Balance remaining at 7 March 1980 in the contingency reserve for the current year.

† Includes short-term borrowing and capital value of leased assets.

‡ The planning total (line 11) differs from total public expenditure (line 7) by excluding debt interest (line 6) but including all net borrowing by the nationalised industries (that is including line 9 as well as government lending to nationalised industries in line 1) and special sales of assets (line 10).

Table 2

Changes to Expenditure Programmes since the January 1979 White Paper (Cmnd 7439)

£ million at 1979 survey prices

	1978-79	1979-80	1980-81	1981-82	1982-83
Defence	–71	–189	–178	+20	+260
Overseas aid and other overseas services:					
Overseas aid	+9	–50	–118	–230	–330
European Community contributions	+51	+132	+166	+340	+430
Other overseas services	–32	+6	–19	–20	–30
Agriculture, fisheries, food and forestry	–82	–124	–105	–40	–50
Industry, energy, trade and employment	–277	–472	–460	–1,010	–1,490
Government lending to nationalised industries	–407	+450	–100	–400	–1,150
Roads and transport	–110	–119	–279	–390	–470
Housing	–441	–623	–1,576	–2,580	–3,290
Other environmental services	–39	–159	–317	–470	–590
Law, order and protective services	–83	–25	+10	+20	+30
Education and science, arts and libraries	–72	–50	–530	–800	–970
Health and personal social services	–72	–234	–237	–380	–400
Social security	–18	–380	–186	—	–500
Other public services	–49	–21	–50	–80	–90
Common services	–37	–70	–101	–130	–150
Northern Ireland	–6	–57	–101	–150	–210
Total	–1,738	–1,984	–4,180	–6,300	–9,000

Table 3

Changes to Expenditure Programmes since the November 1979 White Paper (Cmnd 7746)

£ million at 1979 survey prices

	1980-81
Defence	–65
Overseas aid and other overseas services:	
Overseas aid	–3
European Community contributions	+24
Other overseas services	–3
Agriculture, fisheries, food and forestry	–116
Industry, energy, trade and employment	+122
Government lending to nationalised industries	–200
Roads and transport	–4
Housing	–378
Other environmental services	–21
Law, order and protective services	–12
Education and science, arts and libraries	–21
Health and personal social services	–8
Social security	+65
Other public services	–21
Common services	–22
Northern Ireland	–14
Total	–678

announced in December 1979. No other changes have been made affecting local authority current expenditure covered by the Rate Support Grant (RSG) since the RSG settlements announced in November 1979. The contingency reserve and the allowance for debt interest have both been increased (see pp 127 and 128).

Changes in Long-term Priorities

Table 4 shows the allocation of expenditure between the 15 main functional programmes. The largest single programme is social security. Because of increased numbers of beneficiaries, the switch from a combination of family allowances and child tax allowances to child benefit, the real improvement in levels of benefit and the introduction of some new benefits, the programme grew by nearly £5,000 million between 1974-75 and 1979-80; other programmes showed a net decline of £3,500 million. Social security now accounts for about a quarter of the total and is still rising. This and four other programmes – defence, housing, education and health – together account for over two-thirds of the total.

The functional breakdown of the plans shown in Table 4 reflects the Government's view of national priorities. The eventual distribution will depend in part on the decisions of individual local authorities where these are the spenders.

The plans reflect the Government's policy to give greater priority to defence and law and order. They also reflect the Government's commitment to hold gross spending on the national health service at the level proposed by the previous Government although planned net expenditure will be reduced by increased charges. These programmes are planned to rise in volume throughout the survey period, in the case of defence at an annual rate of 3 per cent.

The plans for social security (see pp 137-41) reflect the Government's decision, announced in the June 1979 Budget (see p 193, 1979), that the future minimum uprating of long-term benefits would be based on price movements only rather than the greater of earnings movements or price movements. Further proposed changes include ending the earnings-related supplement from 1 January 1982 and moderating the indexed increase in certain short-term and invalidity benefits in November 1980 by 5 percentage points (this is being done as an interim step having regard to the belief that the benefits, though not at present taxed, should be). Provision is made for increases in November of 75p a week in child benefit and 50p a week in the premium payable to single-parent families and for improvements in the Family Income Supplement scheme. The Government has also undertaken to provide extra fuel help for the poor next winter; this will be financed from the contingency reserve (see p 127).

The fall in the industry, energy, trade and employment programmes is accounted for by a substantial reduction in government assistance to industry and by the reduction in provision for employment and training. However, certain temporary employment measures (the Temporary Short-time Working Scheme and the Job Release Scheme) will continue for a further year although the Job Release Scheme will be substantially reduced. Expenditure on export credit refinance in both 1979-80 and 1980-81 is reduced by the agreement of the Trustee Savings Banks to take over substantial amounts of outstanding refinance.

The housing programme for 1980-81 has been reduced since the publication of the November 1979 White Paper. Lower figures are projected for the later years, reflecting among other things the substantial reduction in local authorities' building programmes since 1977 and the Government's commitment to reduce housing subsidies. No decision has yet been taken on the division between current and capital expenditure for the later years.

The reductions in the education programme for 1980-81 are expected to fall largely on school meals, milk and transport and will continue in the later years. The provision for expenditure on teachers, non-teaching staff and school building has been reduced to take account of the fall in pupil numbers but allowance has been made for the diseconomies of smaller scale.

A reduction is projected in the total net borrowing of nationalised industries, leading to net repayment by the end of the period, but the forecast position varies considerably between individual industries, and the figures, both for individual industries and in total, are highly uncertain.

Improvements in Efficiency

The Government believes that there is substantial scope for increasing efficiency in most programmes. Several policies are directed to this end, including the setting of strict cash limits (see p 127), the review of Civil Service staff costs and the scrutinies of central government functions

being carried out under the direction of Sir Derek Rayner. The reductions in programmes included in the White Paper will contribute, as will the measures being taken to require individual local authorities to publish information on manpower and other topics and also to introduce proper accounting procedures for direct labour costs.

Staffing

Public service manpower has stabilised since 1976-77, following earlier expansion. The Government's expenditure plans now imply a continuing reduction over the next few years. Civil Service numbers in central government will fall despite some increases in social security staff, reflecting an assumed rise in the number of claims for benefit. The reduction in Civil Service numbers announced in December 1979, consequent on the Government's review of the size and cost of the Civil Service, will save the equivalent of some 40,000 posts. When added to previous measures for staff savings of 20,000 this amounts to about 8 per cent of the total size of the Civil Service when the Government took office.

As regards other central government manpower, there will be a continued increase in the health service in staff directly serving patients, accompanied by measures to restrict the numbers of management staff. There will be some increase, following past reductions, in armed forces manpower. For the health service as a whole and for the armed forces the increase in manpower will average about 1 per cent a year over the four years to 1983-84. In local government there are already indications of a check in the recently resumed growth, and overall manpower is expected to decline during the next four years. This is consistent with the projected decline in gross local authority current expenditure, 70 per cent of which represents manpower costs.

Cash Limits

The plans in the White Paper are the basis for setting cash limits for 1980-81. The provision to be added for pay and price increases is published separately. The Government intends to hold the cash limits determined at the start of the financial year, which will require a reduction in the planned volume of expenditure in 1980-81 unless costs are contained within the provision in that year's cash limits for cost increases.

Contingency Reserve

The planning totals include a substantial unallocated reserve for contingencies and other requirements which cannot be quantified at this stage. The figures in Table 4 understate the levels of some programmes to the extent that the reserve will in due course be allocated to programmes.

The Government maintains the policy of treating the contingency reserve as a control figure. Decisions to incur additional expenditure which cannot be accommodated within existing programmes will be contained within the reserve. In view of the stringency of the plans now proposed for 1980-81 and of the uncertain economic out-

Table 4

Total Public Expenditure by Programme

£ million at 1979 survey prices

	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Defence	7,502	7,723	7,997	8,240	8,490	8,740
Overseas aid and other overseas services:						
Overseas aid	795	794	779	730	680	680
European Community contributions*	774	919	*1,024*	*1,150*	*1,300*	*1,550*
Other overseas services	393	432	406	400	400	400
Agriculture, fisheries, food and forestry	897	944	877	920	900	890
Industry, energy, trade and employment	3,203	2,969†	2,992	2,390	1,910	1,760
Government lending to nationalised industries	693	1,900	700	300	–150	–550
Roads and transport	2,975	3,073	2,910	2,780	2,690	2,690
Housing	5,256	5,372	4,700	3,840	3,250	2,790
Other environmental services	3,330	3,273	3,192	3,040	2,920	2,880
Law, order and protective services	2,329	2,446	2,530	2,600	2,670	2,700
Education and science, arts and libraries	9,516	9,654	9,225	9,010	8,850	8,670
Health and personal social services	9,023	9,067	9,186	9,230	9,410	9,500
Social security	18,266	18,890	19,354	19,800	19,500	19,600
Other public services	958	1,014	976	990	950	940
Common services	1,022	1,047	1,066	1,070	1,080	1,120
Northern Ireland	2,233	2,200	2,136	2,110	2,070	2,070
Total programmes	69,165	71,716	70,051	68,600	66,900	66,400
Contingency reserve	—	84	1,000	1,200	1,500	2,000
Total	69,165	71,800	71,051	69,800	68,400	68,400
Debt interest	2,941	3,300	3,500	3,500	3,300	3,000
Total public expenditure (line 7, Table 1)	72,106	75,100	74,551	73,300	71,700	71,400

* Forecasts shown in italics for reasons given on p 124.

† Excludes sales of British Petroleum shares, which are included in 'Special sales of assets' (line 10, Table 1).

look the Government has decided to increase the 1980-81 contingency reserve from £750 million to £1,000 million. This is, however, precautionary as the Government will aim to avoid or minimise any additional expenditure from the reserve.

Special Sales of Assets

The Government's plans for a £1,000 million contribution to the public sector borrowing requirement (PSBR) in 1979-80 from special sales of public sector assets (line 10 of Table 1 and see p 193, 1979) are expected to be fulfilled. The sales in 1980-81 (see p 114) are expected to bring a small continuing net benefit to the PSBR in later years as a result of the reduction in provision needed for total borrowing by public corporations, partly offset by the reduction in public sector receipts in future years, consequent upon the asset sales.

Debt Interest

The figures for debt interest (line 6 of Table 1) represent only those interest payments which have to be financed from taxation or further government borrowing. The increase in the estimates for 1979-80 and 1980-81 since the publication of the November 1979 White Paper reflects the use of more up-to-date assumptions about interest rates.

Shortfall

The general allowance for shortfall in 1980-81 is put at £1,000 million (line 12 of Table 1), as in the November 1979 White Paper. The allowance for shortfall in the years 1981-82 to 1983-84 is tentatively put at about 1 per cent of expenditure, that is £750 million. Shortfall in 1979-80 seems likely to be at about that level although much of it is now reflected in the revised estimates of expenditure (see p 130).

In addition, a standard allowance of £400 million a year for shortfall on nationalised industries' total net external finance has been made from 1981-82 onwards. The allowance for 1980-81 has been put at £100 million.

Relative Cost of Public Expenditure

The cost, not the volume, of expenditure plans must be taken into account in assessing the implications for taxation, the borrowing requirement and the money supply. The extent by which pay and prices in the public services may increase at a faster or slower rate than prices in the economy generally has therefore to be taken into account. The substantial pay settlements for public servants implemented during the last year (see pp 242-3, 1979) add considerably to the cost of the public expenditure plans. The awards recommended by the Standing Commission on Pay Comparability are expected to cost about £2,000 million in 1980-81 while the effect in a full year of the staged settlements for civil servants and local authority white collar workers will add about a further £1,000 million.

The cost of the expenditure plans (before shortfall and special sales of assets – line 7 of Table 1) is expected to fall by almost 0·75 per cent less than the volume between 1979-80 and 1980-81. This reverses the tendency in recent years for the cost of public expenditure to rise by rather less than the volume. (This happened even between 1978-79 and 1979-80 because the staged implementation of the pay awards reduced their effect on costs in 1979-80, delaying the full impact until 1980-81.)

Public Expenditure and Gross Domestic Product

The ratio of public expenditure (including debt interest) to gross domestic product (GDP) rose to 46·5 per cent in 1974-75 (from 41·5 per cent in 1973-74 on a slightly narrower definition) as a result of a rise in both the value and the relative price of public expenditure. By 1978-79 it was 42·5 per cent, reflecting the net fall in the volume of public expenditure after 1975-76. The ratio for 1979-80 is expected to be about the same as in 1978-79 as both the volume and the relative cost of expenditure have remained approximately stable. The plans in the White Paper are expected to result in a further fall in the ratio of public expenditure to GDP over the survey period.

The ratio of general government expenditure on goods and services to GDP shows a similar pattern. It was 26 per cent in 1974-75 and 23 per cent in 1978-79; the outturn for 1979-80 is expected to be similar.

Analysis by Economic Category

The White Paper contains an analysis of the present programmes by economic category (and by spending authority) up to 1980-81. This analysis cannot be extended into later years as decisions have not yet been taken in all cases on allocations within the main programmes.

Current expenditure is planned to increase by £200 million between 1979-80 and 1980-81. This increase is more than accounted for by transfer payments as other current expenditure shows a small decrease. Capital expenditure is planned to fall by £1,900 million but £1,400 million of this is accounted for by capital transfers. The remainder is accounted for by a fall in construction expenditure on programmes. After taking into account a projected increase in construction expenditure by the nationalised industries (which falls outside the definition of public expenditure) total public sector capital expenditure on construction is expected to fall by some 3 per cent below the level in 1979-80.

These figures exclude shortfall, the contingency reserve and the special sale of public sector assets because they are not allocated between economic categories. The outturn of both current and capital (including construction) expenditure will be affected by the eventual outturn of all these items.

Analysis by Spending Authority

Central Government and Nationalised Industries

Central government expenditure accounts for over 70 per cent of total programmes. About 40 per cent of central government expenditure, which is summarised in Table 5, is on goods and services, mainly for defence and the national health service.

The remainder consists of transfer payments, such as social security benefits, housing subsidies and industrial support, and net lending (including loans to nationalised industries). After 1980-81 central government expenditure (except that on housing, for which decisions have not been taken about the make-up of the programme after 1980-81), together with overseas and market borrowing by the nationalised industries, declines, by about 1 per cent in 1981-82, 1·75 per cent in 1982-83 and 0·25 per cent in 1983-84.

The external financing of the nationalised industries, included in the public expenditure planning total, consists of: net government lending; net market and overseas borrowing (including short-term borrowing and the capital value of leased assets); and grants. No allowance has been made for the proceeds of the programme of asset sales apart from the exclusion of British Aerospace from the figures for 1980-81 and subsequent years on the assumption of a sale of shares in 1980-81.

fied as regards housing expenditure and Table 6 shows the revised figures. This broad breakdown of current expenditure reflects the Government's view of national priorities but it is necessarily tentative since local authorities decide the eventual distribution in the light of local needs and conditions.

The Government called in July 1979 for savings to be made in 1979-80 which would result in a lower outturn for that year and thus make it easier to achieve the economies needed in 1980-81. Information about the resulting outturn of local authority current expenditure in 1979-80 is, however, not yet available and so the estimated outturn shown in Table 6 still largely reflects the levels of expenditure planned at the time of the previous RSG settlements in November 1978.

In the course of the next public expenditure survey the Government will discuss the implications of the plans in this White Paper for local authority expenditure in the years after 1980-81

Table 5

Central Government Expenditure

£ million at 1979 survey prices

	Outturn 1979-80 estimate	1980-81
Defence	7,723	7,997
Overseas aid and other overseas services	2,112	2,175
Agriculture, fisheries, food and forestry	939	871
Industry, energy, trade and employment	2,866	2,890
Government lending to nationalised industries	1,900	700
Roads and transport	1,235	1,176
Housing	2,686	2,679
Education and science, arts and libraries	1,514	1,489
Health and personal social services	7,701	7,911
Social security	18,890	19,354
Other programmes, including Northern Ireland	4,464	4,423
Total	52,032	51,665

Although figures for years up to 1983-84 are inevitably highly uncertain they do point to a progressive reduction in external financing. Total external financing is projected to decline in each year, from £2,300 million in 1979-80 to –£400 million in 1983-84. The fall is accounted for by a reduction in net government lending from £1,900 million in 1979-80 to –£550 million in 1983-84. The figures assume that the coal, steel and shipbuilding industries will reduce or eliminate current losses, that British Rail will be able to contain costs and that the gas and electricity industries will take steps to eliminate underpricing.

Local Authorities

The RSG settlements for 1980-81, announced in November 1979, incorporated the plans for local authority expenditure set out in the November 1979 White Paper. These plans have been modi- with the local authority associations. The plans assume that local authorities will make continuing reductions in the overall level of their expenditure during the period covered by the survey. Excluding housing (for which decisions have not been taken about the make-up of the programme after 1980-81), local authority total current expenditure in England, Scotland and Wales is expected to fall by about 2 per cent in 1981-82, 1 per cent in 1982-83 and 1 per cent in 1983-84. Local authority capital expenditure is expected to fall by about 5 per cent in 1981-82, 6 per cent in 1982-83 and 3 per cent in 1983-84. Different services will be affected in different ways.

Public Expenditure in 1978-79

The volume of expenditure in 1978-79 is now provisionally estimated to have been about 3·5 per cent (around £2,500 million) below the level planned in the January 1978 White Paper[1] (see

[1] *The Government's Expenditure Plans 1978-79 to 1981-82. Volume I.* Cmnd 7049-I. HMSO, 70p. ISBN 0 10 170490 9. *Volume II.* Cmnd 7049-II. HMSO, £2·35. ISBN 0 10 170491 7.

Table 6

Public Expenditure by Local Authorities in England, Scotland and Wales*

£ million at 1979 survey prices

	Outturn 1978-79	Outturn 1979-80 estimate†	1980-81 plans
Current expenditure			
Education, libraries and arts	7,626	7,756	7,391
Local environmental services	1,706	1,722	1,651
Law, order and protective services	1,725	1,804	1,856
Personal social services	1,264	1,292	1,204
Transport	1,184	1,149	1,111
Housing	579	642	594
Other programmes	218	237	237
Total (current)	14,301	14,601	14,044
Capital expenditure			
Education, libraries and arts	430	384	345
Local environmental services	613	549	586
Law, order and protective services	66	61	65
Personal social services	61	75	72
Transport	567	613	556
Housing	1,820	1,824	1,320
Other programmes	4	6	8
Total (capital)	3,561	3,512	2,952
Total (current + capital)	**17,862**	**18,113**	**16,996**

* The totals differ from those in line 2 of Table 1, which cover England, Scotland, Wales and Northern Ireland and include value added tax paid by local authorities but later reimbursed.

† Information on the level of current expenditure by local authorities in 1979-80, following the call by the Government in July 1979 for savings, is not yet available. The estimated outturn still largely reflects the level planned at the time of the previous RSG settlements in November 1978.

pp 52-6, 1978). However, it was about 5·5 per cent above the actual outturn in 1977-78, which was exceptionally far below the planned level. The main areas in which expenditure in 1978-79 was below that planned were local authorities' investment in housing, payments of regional development grants, expenditure by the National Enterprise Board, and the employment programme, where new schemes made slower progress than expected. About half the total shortfall occurred in the two-thirds of public expenditure covered by cash limits. The cash limits on central government expenditure and local authority capital expenditure were underspent by just under 3 per cent. In previous years underspending had been a little greater but in 1978-79 prices rose rather faster than had been assumed when the limits were set.

Public Expenditure in 1979-80

The figures in Table 1 for 1979-80 include the reductions in public expenditure announced in the June 1979 Budget (see pp 192-3, 1979). The outturn for the year is still uncertain, particularly on local authority current expenditure (see p 129). Fresh information has resulted in small revisions to the estimates for 1978-79 and 1979-80 contained in the November 1979 White Paper but the estimated total for 1979-80 (line 13 of Table 1) is still about the same as that for 1978-79.

Partly because of the reductions made in the June 1979 Budget, which included reductions in volume plans due to the decisions announced on cash limits, shortfall in 1979-80 is expected to be considerably lower than in 1977-78 and 1978-79. The shortfall previously forecast in the nationalised industries' requirements for external finance will not be realised. The November 1979 White Paper included a general allowance of £750 million for shortfall; some of this is now reflected in the revised estimates of expenditure on programmes[1] and the general allowance (line 12 of Table 1) has been reduced to £250 million.

Scotland and Wales

As in previous White Papers, expenditure in Scotland and Wales is included in the relevant programmes. However, the Government has decided that the introduction of separate programmes covering expenditure within the responsibility of the Secretaries of State for Scotland and for Wales would be more consistent with its view of the discretion each should have to determine expenditure priorities. This will be done in the next survey and so shown in the next public expenditure White Paper. The estimates and cash limits structure will be altered correspondingly.

[1] *Supply Estimates 1980-81*. Cmnd 7869. HMSO, £4. ISBN 0 10 178690 5.

Monetary Policy

A consultative document prepared by the Treasury and the Bank of England was published in March.[1] It explains the role played by monetary policy and monetary targets in the Government's economic strategy and discusses methods of control of the banking system.

The issue of a publication on monetary control was promised by the Chancellor of the Exchequer, Sir Geoffrey Howe, in his economic statement to the House of Commons on 15 November 1979 (see p 378, 1979). The Government believes that it already has the means to achieve its medium-term monetary objectives by the appropriate use of fiscal policy and interest rates. Monetary objectives will continue to be expressed as targets for sterling M3 (notes and coin in circulation plus the sterling bank deposits of British residents). In particular, the Government intends over time to reduce substantially the public sector borrowing requirement (PSBR) as a proportion of national output.

The document concentrates on the problem of short-term control over periods of up to a year or so. This is essentially a question of the way in which changes in short-term interest rates are brought about.

Various traditional methods of controlling the banking system are considered, together with some possible improved methods. The traditional methods include quantitative controls (of which the special deposits (SD) scheme and the supplementary special deposits (SSD) scheme are examples), the cash requirement and the reserve asset ratio (RAR). Possible improved methods are monetary base control and indicator systems.

Quantitative controls may be applied to the assets of the financial institutions concerned, as with the ceilings on bank lending in the 1960s, or to their liabilities, as in the case of the SD and SSD schemes. The document argues that the advantages and disadvantages are the same in both cases and goes on to suggest that a more useful distinction is that between permanent and temporary quantitative controls. Permanent controls, to the extent that they cannot change interest rates, tend to divert flows without affecting underlying monetary conditions. Temporary controls may bridge a gap before other policies have their effect but there is the risk of anticipation and it is usually easier to impose controls than to remove them.

The SD scheme was introduced in 1960 and under it the London clearing banks are called upon by the Bank of England to deposit a specified percentage of their eligible liabilities[2] in interest-bearing deposits at the Bank. While there, these deposits are not available to the banks and so an increase in the rate of call acts to reduce the liquidity[1] of the banks. The document proposes that the SD scheme should be retained.

The SSD scheme, widely known as the 'corset', was introduced in 1973 (see p 19, 1974). According to it the authorities set a guideline for the rate of growth of the interest-bearing eligible liabilities of banks, expressed as a percentage of growth over the average level in a specified base period. Banks have to place non-interest-bearing SSDs with the Bank of England to the extent that the guideline is exceeded. The rate of call rises progressively with the amount of the excess and is 50 per cent of any excess over 5 per cent. It was originally envisaged that the SSD scheme would not be applied continuously. However, the document points out that it 'has run into the inherent difficulties with temporary controls, namely anticipation of reimposition and the likely resurgence of the controlled statistic when the scheme ends'. The Chancellor announced in his Budget statement on 26 March (see p 113) that the scheme would not be extended beyond mid-June when the present guideline would end.

According to the cash requirement the London clearing banks have to hold balances at the Bank of England amounting to 1·5 per cent of their eligible liabilities. The consultative document describes the cash requirement as 'the fulcrum on which the Bank of England works when it seeks to affect short-term interest rates through its money market operations'. It goes on to mention proposed discussions to replace the existing cash requirement with one which would embrace all banks and licensed deposit-taking institutions above a minimum size.

The RAR has its origins in the banks' customary holdings of liquid assets for prudential reasons and was adapted to its present form in 1971 (see p 432, 1971). Banks are required to hold the equivalent of at least 12·5 per cent of their eligible liabilities in reserve assets, which consist of balances at the Bank of England and money at call with the discount market. The consultative document points out that the RAR 'was never designed to serve as an officially-controlled monetary base through which the pyramid of credit created by the banks might be directly limited. Instead, in conjunction with special deposits, the RAR was regarded as an element in the control of short-term interest rates. It enabled the authorities to vary bank liquidity and so influence the level of short-term interest rates in the required direction.' The document mentions the argument that the RAR distorts the yield relationship between those short-term assets which qualify as reserve assets and other assets, and that this distortion helps to inhibit the development of a broader market in short-term public sector debt which might otherwise be helpful to shorter run control of some of the monetary aggregates, including sterling M3. However, it suggests that this difference is probably a reflection of the special liquidity of the assets in question. Thus, although the RAR was introduced in 1971 as a monetary control, the assets which it includes also represent the banks'

[1] *Monetary Control*. Cmnd 7858. HMSO, £2·50. ISBN 0 10 178580 1.

[2] These are mainly sterling deposits (including those of overseas residents) with maturities of less than two years plus sterling resources obtained as a result of switching foreign currencies into sterling.

[1] A consultative paper, *The Measurement of Liquidity*, was issued by the Bank of England in March.

first line liquidity, which has caused confusion. The authorities have accordingly reviewed the operation of the RAR and consider that it is not necessary to retain it in order to influence short-term interest rates.

With regard to alternative methods of control, the consultative document describes how, under monetary base control, the authorities act to control the proportion of deposits which banks keep in base assets, such as deposits at the Bank of England and perhaps notes and coin. These base assets might be held either because of a mandatory requirement or for commercial reasons. By acting to control this base the authorities should be able to control bank deposits, the major element in the money supply. When translated into practice, however, monetary base control raises a number of problems. For example, in mandatory schemes there would be problems in insulating the size of the base from the unintended effects of the large short-term swings in the public sector's borrowing needs. In non-mandatory schemes it is doubtful whether the relationship between base assets and bank deposits would be stable enough to allow firm control of the money supply.

Under indicator systems sterling M3 or the monetary base would be used to trigger changes in the Bank of England's lending rate according to a formula. If the path of money supply or the base differed from the desired path, changes in lending rate would follow automatically unless specifically overridden. A difficulty, the document points out, is that changes might be triggered by erratic fluctuations or perversely by external flows. There would therefore need to be a power to override the trigger. Furthermore, there is no guarantee that the interest rate changes would be such as to produce steadier growth in sterling M3 in line with the target.

The Treasury and the Bank of England intend to consult widely on the question of whether the difficulties they have identified with monetary base control and the indicator scheme can be overcome.

Shorter Notes

NATIONAL INCOME AND EXPENDITURE 1979

Britain's output of goods and services (gross domestic product—GDP) was valued at £159,090 million in 1979, a rise in real terms of about 1·6 per cent over 1978. About half of this growth was attributable to activity in the North Sea oil and gas industries, the output of which increased by 43 per cent over the year. Other industries showing a significant increase in output were communications (8 per cent); gas, electricity and water (6 per cent); distributive trades (2 per cent); and chemicals, coal and petroleum products (2 per cent). Real national disposable income rose by nearly 2·5 per cent over the same period, reflecting the rise in export prices relative to import prices in non-oil trade as a result of increases in the international value of sterling.

In 1979 total domestic income (income from employment and self-employment, gross trading profits and rent) was 17 per cent higher than in 1978 at current prices. The largest component, income from employment, rose by 17 per cent.

Personal disposable income (after deduction of taxes and national insurance contributions) increased over the year by 19 per cent at current prices, a large increase in the fourth quarter reflecting a cut in income tax rates, and consequent tax rebates covering the second and third quarters. Real personal disposable income (RPDI) increased by 6 per cent. The change in emphasis from direct to indirect taxation announced in the June Budget (p 191, 1979) depressed RPDI in the third quarter and inflated it in the fourth. A better assessment of the increase in RPDI over the year is provided by comparing the first three quarters of 1979 with the same period in 1978. This rise was 5 per cent. Consumers' expenditure rose by 16·5 per cent at current prices (4 per cent in real terms). Expenditure on consumer durables continued to rise; expenditure on cars and motorcycles increased by 8 per cent, despite a large rise in 1978, and expenditure on radio and electrical goods rose by 9 per cent. Expenditure on wines and spirits also rose, by 9 per cent.

After deducting stock appreciation, gross trading profits of industrial and commercial companies rose by just over 5 per cent at current prices. However, profits net of stock appreciation, excluding North Sea oil, fell by over 5 per cent. Profits of companies operating in the North Sea doubled between 1978 and 1979. Income from abroad of all industrial and commercial companies rose by 35 per cent in 1979, partly due to higher receipts by British oil companies from subsidiaries abroad. Profits due abroad were 80 per cent higher in 1979, largely because of increased profits of foreign oil companies working in the North Sea.

The volume of fixed investment fell by 3 per cent, half of this fall being attributable to reduced investment in the North Sea oil and gas industries. Direct investment by manufacturing industries showed a very slight fall, although there was a growth in the volume of fixed assets bought by financial companies and leased to manufacturers.

This summary is based on revised figures of national income and expenditure in the fourth quarter and year 1979, together with estimates of the sector current or appropriation accounts, fixed capital formation, and the summary capital account published in a Central Statistical Office press notice CSO(80) 29 on 24 March.

COMPTROLLER AND AUDITOR GENERAL

A consultative document on the role of the Comptroller and Auditor General[1] was published in March; this followed the announcement by the

[1] *The Role of the Comptroller and Auditor General.* Cmnd 7845. HMSO, £2·25. ISBN 0 10 178450 3.

Chancellor of the Duchy of Lancaster, Mr Norman St John-Stevas, in the House of Commons on 25 June 1979 (*Hansard*, Vol 969, No 24, col 37), that a fundamental review of the Exchequer and Audit Department Acts, leading to proposals for new legislation, was needed. (The Comptroller and Auditor General has two functions. First, as Comptroller General, he exercises his statutory duty to ensure that all revenue and other public moneys payable to the Consolidated Fund and the National Loans Fund are duly paid and that all issues from these funds are authorised by statute. Secondly, as Auditor General, he audits, in accordance with the Exchequer and Audit Department Acts 1866, 1921 and 1957 and the National Loans Act 1968, and on behalf of the House of Commons, accounts of the transactions of these funds and every Appropriation Account, submitting reports on them and other accounts to Parliament.)

The paper is intended to carry forward the Government's review of the Exchequer and Audit Department Acts by providing a basis for discussion with the Public Accounts Committee and the new Treasury and Civil Service Department Select Committee of the House of Commons (see p 176, 1979). Interested organisations and individuals outside Parliament are invited to send comments to the Treasury by 31 July. In the light of these discussions and comments the Government will consider whether and in what form to legislate to replace the existing Exchequer and Audit Department Acts.

The document discusses three main questions: the kinds of audit that the Comptroller should undertake; the extent of his responsibilities; and his status in relation to Parliament and the Executive. It envisages the continuation and development of the Comptroller's work in examining the efficiency and effectiveness of public spending but also stresses the importance of a basic financial and regularity audit. It recognises the benefits of systems-based auditing as a cost-effective means of performing the audit task.

The paper endorses the existing practice of including the Comptroller in the affairs of bodies substantially supported by government money, suggesting a link between the extent of the Comptroller's responsibilities and the degree of ministerial responsibility for the body or activity under audit. It argues against involving the Comptroller in the nationalised industries. However, it leaves open the question of the British National Oil Corporation and the National Enterprise Board (the Public Accounts Committee in the last Parliament had pressed for the Comptroller to be given access to their books and records).

The document supports the Comptroller's independence. Consistent with this, it suggests that certain obsolete statutory powers of direction available to the Treasury under the Exchequer and Audit Department Acts should be recast or removed in any new legislation. The paper leaves open the possibility of a change in present arrangements whereby the Civil Service Department is responsible for controlling the grading and numbers of staff of the Exchequer and Audit Department, but expresses the Government's belief that the Comptroller's independence will best be safeguarded if he remains an office holder under the Crown and not a servant of the House of Commons.

INDUSTRIAL POLICY FOR NORTHERN IRELAND

A statement of the Government's strategy on industrial development in Northern Ireland was made by the Parliamentary Under-Secretary of State for Industry, Mr Giles Shaw, in a parliamentary reply (*Hansard*, Vol 982, No 151, written answers, cols 190-2) on 1 April. The strategy is based upon recently completed reviews of industrial development incentives and institutions (see p 303, 1979).

The Government has concluded that the level of industrial development incentives is, in general terms, highly competitive internationally and that they should be maintained for a further period. It has decided that Northern Ireland should not be exempt from the new criteria governing selective financial assistance which were introduced in the assisted areas of Great Britain in July 1979 (see pp 265-6, 1979), and were designed to improve cost effectiveness. Companies in Northern Ireland seeking selective financial assistance will have to satisfy two new criteria: that of 'additionality', whereby the applicant must demonstrate that the project would not have gone ahead at all, or on the same scale, or with the same timing, in the absence of assistance; and 'efficiency', whereby assistance will be provided only if it can be shown that the project is designed to create more productive and secure jobs. These criteria will be introduced over a transitional period from 1 April to 1 October 1980.

From the review of the main industrial development institutions of Northern Ireland—the Department of Commerce (DOC), the Northern Ireland Development Agency (NIDA), the Local Enterprise Development Unit (LEDU) and the Department of Manpower Services (DMS) (in relation to industrial training responsibilities) – the Government has concluded that there is need for a more cohesive and co-ordinated approach towards industrial development. One means of achieving this would be to create a more unified structure but the Government is not convinced that the longer-term benefits of institutional change would outweigh the disruptive effect of making the change. The Government has therefore concluded that it should leave largely undisturbed the present structure, and that the DOC, NIDA and LEDU should all continue to contribute to the overall industrial development effort in Northern Ireland. However, it intends to enter into immediate discussions with the Northern Ireland Economic Council, with a view to establishing a consultative forum for the exchange of views between council members and the Government and its agencies on industrial development matters.

Other intentions announced in the review statement include the removal of the raising of the

financial limit of NIDA from £50 million to £70 million; the encouragement of LEDU to explore every possible way to stimulate the growth of small firms in Northern Ireland, the assumption by the DMS of a co-ordinating role in relation to management training and education activities; and the holding, in the coming months, of a number of seminars in Northern Ireland both to explain the proposed changes and how they relate to local needs, and to set these changes within the existing framework of industrial development strategy.

MEASURES TO AID SMALL FIRMS

The Department of Industry is to provide the English Industrial Estates Corporation with £5 million to enable it, in partnership with the private sector, to provide small factory units in the English assisted areas.[1] The project complements a number of other measures to assist small firms announced in the Chancellor of the Exchequer's Budget speech (see p 120), and follows a report[2] prepared for the Department of Industry by independent consultants which concluded that there was a shortage of premises for small companies and that opportunities existed for profitable investment in this market by both public and private agencies. The £5 million is to be found from within the Department's cash limits. The Royal Assent will be required for the Industry Bill (see pp 339-40, 1979) before the English Industrial Estates Corporation can proceed with joint ventures.

EXPORT AWARDS FOR SMALLER FIRMS

Smaller firms should not be afraid of competing in export markets because they feared that only large companies could succeed, said the Parliamentary Under-Secretary of State for Industry, Mr David Mitchell, when presenting the 1979-80 Export Award for Smaller Manufacturers in London on 13 March. 'Experience shows that small firms are often more enterprising, adventurous and innovative with their products and that they do well in overseas markets. Indeed it is one of the features of small businesses that they can react to market changes and themselves adapt and change more quickly than large ones', he said.

Mr Mitchell emphasised that the success of small manufacturers underlined Britain's need for many more new businesses of all kinds and he pointed to market opportunities that were available. 'We want more small manufacturing firms who will help our balance of payments by producing a wider choice of goods for the home market to counter imports and we need to sell more of these goods abroad.' The Government was determined to create the conditions in which those with flair and determination could see that it was worthwhile to start and to expand a business.

The annual Export Award for Smaller Manufacturers is the only incentive award backed by the Government specifically for small firms. The award is sponsored by the British Overseas Trade Board, the Association of British Chambers of Commerce, British Airways and the *Daily Express*, and is supported by the Confederation of British Industry, the Trades Union Congress and the small firms division of the Department of Industry. The ten 1979-80 prizewinners – five winners and five runners-up – increased their exports during 1978-79 more than three-fold on average. The 1979-80 award was open to any independent company or group of companies employing fewer than 200 people, the export turnover of which exceeded £50,000 in the year ended 31 March 1978 and £100,000 in the year ended 31 March 1979.

PRESTEL

The Post Office announced on 11 March that it is now possible for Prestel (see pp 59-60) to show colour pictures and illustrations as part of the screen display. This is a major technical development and makes Prestel even more versatile as an information and advertising medium. The pictures, which are stored in the computer, occupy a total of about 10 per cent of a Prestel frame and take about 15 seconds to appear on the screen. In order to receive this facility Prestel sets will have to be fitted with an additional piece of electronic equipment; future sets will probably have this device built in. Development work on 'picture Prestel' is to continue and it is likely to be some time before it becomes generally available.

CHANNEL TUNNEL

The Minister of Transport, Mr Norman Fowler, has said that private capital would be expected to meet the cost of constructing a fixed link across the English Channel. In reply to an oral question in the House of Commons on 19 March (*Hansard*, Vol 981, No 141, cols 388-92), Mr Fowler said that he had been examining preliminary proposals by the British Railways Board (BRB) and the French railways (Société Nationale des Chemins de Fer Français – SNCF) for a single-track rail-only Channel Tunnel. More needed to be done before the implications of the scheme could be judged and he awaited with interest the full proposals which were due to be put to him in summer 1980. The decision to have a tunnel or other link across the Channel would be for the British and French Governments to decide and would need suitable arrangements between the two. The cost of any scheme would be very large and the Government could not 'contemplate finding

[1]Changes in the boundaries of the assisted areas were announced last year (see pp 265-9, 1979).

[2]*Provision of Small Industrial Premises*. Prepared by Coopers and Lybrand and Drivers Jonas for the Department of Industry. Available from the Department of Trade (Victoria Street) Library, Room LG 30, 1 Victoria Street, London SW1H 0ET. £25.

expenditure on this scale from public funds'. However, if a scheme were commercially sound, he saw no reason why private risk capital should not be available, and he looked forward to receiving any specific proposals, including those of the BRB, which would attract genuine risk capital.

A number of other schemes for a tunnel or bridge across the Channel have been proposed recently, including a twin-tunnel of the type agreed in the early 1970s but abandoned by the previous Government in 1975 (see pp 73-4, 1975). Mr Fowler said that he was asking Sir Alec Cairncross, whom he had appointed in October 1979 to advise on the BRB/SNCF proposal, to widen his remit to take in a study of all schemes submitted to the Minister.

EUROPEAN COMMUNITY SUPPORT FOR DATA PROCESSING

The European Commission is inviting applications from British companies for financial assistance with computer software and applications projects, as part of a scheme set up under the Community's four-year data processing programme – formally adopted by the Council of Ministers in September 1979. A key object of the scheme, which has a budget of 15 million European units of account (approximately £9 million), is the support of collaborative projects involving at least two users or companies from at least two member states.

Studies and projects on the development of general software must meet certain objectives, such as improving the efficiency of data processing systems and developing techniques relating to distributed data processing, with a view to more general use of Community standards and norms.

Computer applications qualifying for support must possess one or more main features – for example, being trans-national in character; helping, through data processing, to fulfil specific Community policy aims such as free movement of labour and capital, agricultural and regional policies, or energy policy; or increasing productivity and competitiveness through effective application of data processing techniques such as computer-aided design and process and industrial control systems.

The usual form of support will be loans of up to 50 per cent of the total costs of a project, free of interest during the development phase and for the first two years of exploitation of the results of the project. The loans will be expected to be repaid, with interest, from the proceeds of benefits of exploitation over the following four years. Grants (normally subject to a maximum of 50 per cent of the total cost, but up to 100 per cent for studies costing no more than 100,000 European units of account) will be offered for feasibility studies and, exceptionally, for projects launched at the initiative of the Commission. The closing date for applications for support is 1 June 1980, and proposals should relate to projects to be launched no earlier than in the last quarter of 1980. The Commission hopes to make the final choice of successful proposals in October 1980; it will probably make the next general call for proposals early in 1981.

MICROELECTRONICS DEVELOPMENT PROGRAMME FOR SCHOOLS AND COLLEGES

The Government is making available some £9 million (at November 1979 prices) over a four-year period from 1980-81 for a development programme for schools and colleges in England, Wales and Northern Ireland. (A separate programme is being established in Scotland.) Announcing the programme in a parliamentary reply on 4 March (*Hansard*, Vol 980, No 130, col 226) Mr Neil Macfarlane, Parliamentary Under-Secretary of State for Education and Science, said that it would give schools and colleges a better understanding of the potential applications of micro-electronic technology through the commissioning of new development projects and by building on existing work in the field. The programme represents a revision, in the light of public expenditure decisions, of an earlier one proposed by the previous Government (see p 103, 1979).

The programme, which is designed to stimulate and support local initiatives, not to replace them, will consist of a number of co-ordinated projects to be commissioned through national bodies, local organisations and individual institutions. It will be managed by a full-time director under the supervision of the education departments (which will finance projects with grants) and in the light of expert advice. The Council for Educational Technology (see p 103, 1979) will be invited to provide central, administrative and accounting services.

The aim will be to secure a balanced programme which will complement existing activities, including those financed either independently or through other government agencies. Priority will be given to curriculum development (especially in subjects such as science, mathematics, craft, design and technology, business studies and technician studies), to the development of material for teacher training courses, and to arrangements to make more and better software available to schools and colleges. There will also be scope for work in the field of special education.

The Department of Education and Science points out that a successful outcome will depend on the extent to which promising ideas are developed beyond the life of the programme.

REPORT ON BIOTECHNOLOGY

The marked improvement of the industrial potential of biological processes through current advances in techniques such as genetic engineering is emphasised in a joint report[1] of the Advisory Council for Applied Research and Development (ACARD), the Advisory Board for the Research Councils (ABRC) and the Royal Society published

[1] *Biotechnology. Report of a Joint Working Party.* HMSO, £3. ISBN 0 11 630816 8.

on 2 April. As a result, biotechnology[1] provides major opportunities for new industries and the revival of existing ones. However, the report warns that British industry must respond faster and with more enterprise to this new challenge if the opportunities are not to be missed, and recommends that the Government should play a role in fostering biotechnology.

In preparing the report the working party focused mainly on existing opportunities in biotechnology, especially those which appear to have the greatest potential for commercial exploitation over the next 5-10 years, that is, genetic manipulation, enzyme technology and fermentation. Over the next two decades biotechnology is expected to affect a wide range of activities such as the production of food for human and animal consumption, the provision of chemical feedstocks, alternative energy sources, waste recycling, pollution control, and medicinal and veterinary care.

For Britain, the report finds that 'biotechnology is an area of high technology with a large potential growth which can be used by both large and small businesses'. Although initial capital and development costs are high for some processes, experience in the United States and in Europe suggests that growth can occur in small businesses backed only with limited financial resources. However, identifying a number of constraints upon the rapid development of this technology in Britain at present, the working party makes recommendations designed to ensure that Britain takes full advantage of the opportunities offered by biotechnology. The most important of these are that the research councils should increase their support for biotechnology to £3 million a year; that the Government should develop a coherent programme of industrial research and development of £2·5 million a year; and that the National Research Development Corporation (NRDC) should play a more entrepreneurial role in support of innovation in this area and the National Enterprise Board and the NRDC should consider using public funds to set up a research-based biotechnology company. The Council also urges the expansion of some existing centres of excellence in biotechnology in universities; greater use of existing government research establishments; and increased collaboration between industry and the universities.

The report argues that initial fears about what was thought would be the hazards of genetic manipulation were exaggerated and that, in the light of current knowledge, regulations should be modified so that the potential industrial benefits are not missed.

[1]Biotechnology as defined in the report is the application of biological organisms, systems or processes to manufacturing and service industries.

SOCIAL AND CULTURAL AFFAIRS

Social Security Benefits

When social security benefit rates are raised in November, retirement and widows' pensions and other taxed long-term benefits will be fully protected against the forecast 16·5 per cent increase in prices since the last uprating in November 1979. Short-term supplementary benefit, the 'safety net' for the poorest people, will be similarly protected. Some currently untaxed short-term benefits, which it is planned to make part of taxable income, are to be raised by a lesser amount.

Legislation is being introduced to implement other proposals affecting the social security system, including the ending of earnings-related supplements, changes in supplementary benefits for strikers' families, and a special package of measures to help people in need to meet rising fuel costs.

Details of the new benefit rates and other changes were announced in the House of Commons on 27 March by the Secretary of State for Social Services, Mr Patrick Jenkin (*Hansard*, Vol 981, No 147, cols 1658-78). 'In a very difficult year', he said, 'we are protecting benefits for the elderly, preserving intact the safety net below which none shall fall, providing worthwhile help for lone parents and low income families with children, and giving substantial new help with fuel costs to the needy. . . . But caring is not just coping with the present, it is safeguarding the future. If we do not make this country more prosperous, then the people we want to help the most will be the very people who will suffer most – the old, the sick, the disabled and the poor.'

The main points from Mr Jenkin's statement are described below, together with extracts from the Budget speech by the Chancellor of the Exchequer, Sir Geoffrey Howe (see p 112). Details of current and proposed benefit rates – the latter are subject to parliamentary approval – are also given.

STATEMENT IN PARLIAMENT

Increased Rates

The weekly retirement pension for a single person will go up in November from £23·30 to £27·15, and the rate for a married couple from £37·30 to £43·45. These increases match the full 16·5 per cent forecast rise in prices since the last uprating.

Other benefits which will be similarly price-protected include widows' pensions, war and industrial disablement pensions, non-contributory invalidity pension, new scheme additional pensions and graduated pensions, attendance allowance and invalid care allowance. There will be a special 21 per cent improvement in mobility allowance (for physically disabled people unable or virtually unable to walk). Supplementary pensions will be increased and aligned with the new basic retirement pension.

Child benefit paid in respect of every child regardless of parents' circumstances – the main social security benefit for children – is to be increased by 75p to £4·75 a week for each child; the additional payment for the only or oldest child of one-parent families will go up by 50p to £3 a week.

Family income supplement for lower-paid workers with children will be raised by an average of one-third, thus considerably improving its real value. This includes an extra amount for fuel costs (see below).

Most of the long-term contributory benefits mentioned above are taxable. In contrast, Mr Jenkin told the House of Commons, the short-term benefits and invalidity benefit have hitherto not been treated as part of taxable income, 'although it has been common ground on both sides of the House that they should, in principle, be taxed'. As stated in the Budget, proposals to achieve that are to be made by the Government, so that these benefits will be treated as part of taxable income from April 1982, or as soon as possible thereafter. 'This is necessary', said Mr Jenkin, 'to restore a fairer balance between incomes in work and out of work.'

As an interim step, these untaxed benefits will be increased in November by 11·5 per cent – 5 per cent less than the increase in the taxed long-term benefits. Accordingly, sickness and unemployment benefit will go up to £20·65 a week for a single person, and to £33·40 a week for a married couple. Invalidity pension will be increased to £26 for a single person and to £41·60 for a married couple. The dependency increases for children paid with these benefits will be increased by 16·5 per cent, offset by the 75p increase in child benefit.

In order to maintain support for the poorest people, the scale rates of short-term supplementary benefit will be fully price-protected by increasing them in line with the 16·5 per cent forecast. In his Budget speech, Sir Geoffrey Howe

said '. . . any civilised society should provide a safety net below which a poor person's standard of living should not fall. We can all debate what is the proper level. Should it be a relative level or . . . an absolute level, which seeks to meet the basic needs of a person and his family? These are difficult questions. The answers are not made any easier by the fact that the supplementary benefit scheme covers so many varied circumstances, with more than three million beneficiaries at any one time, ranging from the old and infirm to healthy young people capable of work. But clearly no action we take should be at the expense of the really weak and needy.' As well as the increase in supplementary benefit rates in line with the protected level of prices, a large part of the additional help with fuel costs (see below) will also go to supplementary benefit recipients, particularly the old and those with young children.

The cost of the uprating of benefits will be about £3,000 million in a full year. About two-thirds of that will be met from the national insurance fund, and the Government will review contribution rates as usual in the autumn. Any necessary changes will take effect from April 1981.

Social Security Expenditure

The social security programme costs about £20,000 million a year, about a quarter of all public expenditure. It has grown, in real terms, by £7,000 million over the last ten years, and now costs the equivalent of £1,000 for every British household. [On 31 March during the course of the House of Commons debate on the Budget, Mr Jenkin said: 'Part of the increase is, of course, due to the rising numbers of the elderly. Part is due to the rising numbers of the unemployed, but a substantial part has been due to real improvements in the level of benefits, and new benefits and increased family support.'] The Government believes that continuing growth at this rate cannot be sustained, particularly at a time of nil or falling economic growth. Certain cuts, announced in the Budget, are to be made – Mr Jenkin told the House on 27 March that 'given the need to contain the size of the public sector borrowing requirement, it is inescapable that this programme must bear some share of the necessary economies' – but the programme as a whole will still rise next year by some 2½ per cent in real terms.

Savings

The savings that the Government has identified affect primarily those on short-term benefit, above the 'safety net' of the supplementary benefit level. The effect, including the 5 per cent abatement, will be to save, at current prices, £270 million in 1981-82 and £480 million in 1982-83, less than 2 per cent of the social security budget as a whole. The Social Security (No 2) Bill published on 28 March covers these proposals and those affecting the payment of supplementary benefit to strikers' families (see below).

The changes affect the earnings-related supplement, the limit for the pensioners' earnings rule, the linking rules for sickness and unemployment benefit,[1] and the eligibility of occupational pensioners for unemployment benefit.[2]

It is proposed that, from January 1982, the earnings-related supplement should come to an end. [The supplement is paid with sickness benefit, injury benefit (in certain circumstances), unemployment benefit and maternity allowance, and a corresponding benefit is paid with widows' allowance. The present formula is one-third of earnings between a floor and £30, and 15 per cent of earnings between £30 and a ceiling. It is proposed to reduce the 15 per cent band to 10 per cent from January 1981 until the supplement is abolished a year later.]

The supplement was introduced in 1966, since when, Mr Jenkin said, circumstances have changed considerably. 'Redundancy payments are now more generous, and the rapid development of employers' sick pay schemes means that the supplement – which has been allowed by successive Governments to decline in real value – is much less significant than formerly.'

The pensioners' earnings limit is to be held at its present level of £52 a week for the time being, although the Government is committed to ending the earnings rule as soon as circumstances allow.[3]

Supplementary Benefits for Strikers' Families

Changes in supplementary benefits for strikers' families were proposed in the Budget. [Strikers cannot in the ordinary way get unemployment or supplementary benefit for themselves but they can get supplementary benefit for their families.] Benefits for such families will not be withdrawn altogether, but, subject to parliamentary approval, the Government intends that assessments for benefits will assume a striker to have provided £12 per week himself, whether in strike pay or in some other way. Strikers' tax refunds will continue to be taken into account in assessing needs. Until now, part of the tax refund – equivalent to £4 per week – has been disregarded; in future regard will be had to the full refund. The Government also proposes that, when benefits paid to the unemployed are brought into tax, benefits paid to strikers' families shall be taxed similarly.

Announcing the new policy in his Budget speech, Sir Geoffrey Howe said: 'The social security payments that a striker may claim on behalf of his family can be one of several factors that sometimes tilt the balance of industrial power against employers and responsible union leadership alike. These payments have helped to sustain some very damaging strikes. The sums involved can sometimes be substantial. . . . Payments to strikers are widely and understandably resented.

[1]Spells of incapacity or unemployment can be run together where the gap between them is not more than 13 weeks. The proposed chenge would limit this period to six weeks.

[2]At present a person can retire early end receive unemployment benefit on top of e substantial occupational pension, end it is hard to check whether he or she is genuinely available for work. The proposal would reduce unemployment benefit pound for pound for those whose occupational pensions exceed £35 e week, or eny higher figure specified.

[3]Pensions for retired men eged 65-69 and women aged 60-64 ere subject to reduction if earnings exceed £52 a week net of certain working expenses. Existing legislation requires this 'earnings rule' figure to go up each year in line with everege incomes.

'This is an overdue reform. The Government believes that it is entirely fair to assume that strikers have made some provision for their families' financial support, either through their union or by some other means. It can hardly be denied that unions need to accept fuller responsibility for supporting their members when on strike than some of them have done recently. This change will make an important contribution to restoring the balance that has so long been lacking in our industrial relations.'

Help with Fuel Costs

Supplementary benefit heating additions, payable to people receiving supplementary benefits, usually go up in line with fuel costs, and the main scale rates of benefit take account of fuel costs with other living expenses. However, the Government recognises that this year this would not be enough, and is proposing a special package which will amount in total to over £200 million a year.

The basic heating addition is to be increased from 95p a week to £1·40 – that is, £72·80 a year. The middle and upper rates will not only be increased but will be merged into a combined rate of £3·40 a week, worth £176·80 a year. This will simplify the scheme and will mean an increase of almost 80 per cent for some 350,000 people, largely the sick, the disabled and the old.

In addition, the basic rate heating addition of £1·40 a week will be paid automatically to supplementary pensioner householders above the age of 70 – this winter's scheme was confined to the over-75s – and to supplementary benefit families with children under five. Although most severely disabled people on supplementary benefit already qualify for a heating addition, there will be a 'fail-safe' arrangement to identify any who do not. In order to help low-income families in work, too, a special £1 per week addition will go to family-income-supplement families, on top of the £1 already added for fuel this winter.

Other measures are being taken outside the social security system. Needy pensioners will be helped to save fuel by raising the grant under the home insulation scheme from 66 per cent to 90 per cent of the cost. Ministers are also launching an urgent study into ways of helping the old and disabled to save fuel, by insulating their homes, by draught proofing and by making better use of heating appliances. The fuel industries, too, are being encouraged to play their part by sensitive handling of the problems of poor consumers and by developing and extending their easier payment arrangements.

Opposition Views

Replying to Mr Jenkin's statement, the chief Opposition spokesman on health and social security, Mr Stanley Orme, said that the Budget and the statement were an attack on working people and the unemployed. Unemployment, invalidity and sickness benefit were being reduced in real terms. The removal of the lowest-rate tax band announced in the Budget (see pp 000) and the failure to increase child benefit in line with inflation helped to reduce incentives for the low paid and widened the poverty gap. The Opposition saw the reduction of supplementary benefit payable to strikers' families as an attack on the trade union movement.

BENEFIT RATES

Main Contributory and Non-Contributory Benefits

The payment of some benefits – such as retirement, widows' and invalidity pensions and sickness and unemployment benefit – depends upon contributions paid under the national insurance scheme. Other benefits do not depend upon contributions: the main one is child benefit but there are also a number providing special help for disabled people, for example.

	Existing weekly rate £	Proposed weekly rate £
Child benefit		
Each child	4·00	4·75
First or only child of certain lone people	6·50	7·75
Standard rate of retirement,[1] and widows' pensions and widowed mothers' allowance		
Single person	23·30	27·15
Wife or other adult dependant	14·00	16·30
Standard rate of invalidity pension		
Single person	23·30	26·00
Wife or other adult dependant	14·00	15·60
Invalidity allowance payable with retirement pension		
Higher rate	4·90	5·70
Middle rate	3·10	3·60
Lower rate	1·55	1·80
Invalidity allowance payable with invalidity pension		
Higher rate	4·90	5·45
Middle rate	3·10	3·45
Lower rate	1·55	1·75
Standard rate of unemployment and sickness benefits		
Beneficiary under pension age		
Single person	18·50	20·65
Wife or other adult dependant	11·45	12·75
Beneficiary over pension age		
Single person	23·30	26·00
Wife or other adult dependant	14·00	15·60
Widows' allowance (first 26 weeks of widowhood)	32·60	38·00
Maternity allowance	18·50	20·65
Attendance allowance		
Higher rate	18·60	21·65
Lower rate	12·40	14·45
Retirement pension for people over 80*		
Higher rate	14·00	16·30
Lower rate	8·40	9·80
Non-contributory invalidity pension, invalid care allowance	14·00	16·30
Increase of non-contributory invalidity pension and invalid care allowance for a wife or other adult dependant	8·40	9·80

[1]An age addition of 25p is payable to retirement pensioners who are aged 80 or over.

	Existing weekly rate £	Proposed weekly rate £
Mobility allowance	12·00	14·50
Guardians' allowance, child's special allowance	7·10	7·50
Rate of benefit for children of widows, invalidity, non-contributory invalidity and retirement pensioners, invalid care beneficiaries; unemployment and sickness beneficiaries when claimant is over pension age	7·10	7·50
Rate of benefit for children of all other beneficiaries	1·70	1·25

Industrial Injuries Benefits

Industrial injuries benefits are payable to employed people who suffer injuries caused by an accident at work or from a prescribed industrial disease contracted there. Injury benefit is payable for up to 26 weeks and may be followed by disablement benefit.

	Existing weekly rate £	Proposed weekly rate £
Injury benefit*	21·25	23·40
Disablement benefit (100 per cent assessment)	38·00	44·30
Unemployability supplement†	23·30	26·00
Special hardship allowance (maximum)	15·20	17·70
Constant attendance allowance (normal maximum)	15·20	17·70
Exceptionally severe disablement allowance	15·20	17·70
Industrial death benefit:		
Widows' pension (first 26 weeks of widowhood)	32·60	38·00
Widows' pension (higher rate)	23·85	27·70
Widows' pension (lower rate)	6·99	8·15

Main Supplementary Benefits

Supplementary benefits are payable to people who are not in full-time work and whose financial resources fall below a certain level. The amounts shown below are the weekly levels laid down for the requirements of married couples, single householders and others. Benefit awarded is the difference between resources and these requirements. The long-term rates apply to retirement pensioners and to those people below pensionable age who have received supplementary benefit continuously for two years, provided that the award has not been subject to the condition of registering for employment.

*Increases for adult dependants and children will be the same as those payable with unemployment and sickness benefits, where claimant is under pension age.
†Invalidity allowances and increases for adult dependants and children will be the same as those payable with invalidity pensions.

	Existing weekly rate £	Proposed weekly rate £
Ordinary rate		
Husband and wife	29·70	34·60
Person living alone	18·30	21·30
Any other person aged:		
18 and over	14·65	17·05
16-17 years	11·25	13·10
13-15 years	9·35	10·90
11-12 years	7·70	
5-10 years	6·25	7·30
Under 5 years	5·20	
Long-term rate		
Husband and wife	37·65	43·45
Person living alone	23·70	27·15
Any other person aged:		
18 and over	18·95	21·70
16-17 years	—	16·65
Non-householder housing additions	1·70	2·15
Heating additions	0·95	1·40
	1·90	3·40
	2·85	
Dietary additions	1·05	1·20
	2·50	2·80
Blindness addition	—	1·25
Addition for claimant or dependant over age 80	0·25	0·25

Family Income Supplement

Family income supplement is a benefit for families with small incomes where the head of the household is in full-time work and where there is at least one dependent child. It is payable when the gross weekly income of a family falls below a prescribed amount. The amount varies according to the number of children in the family, but is the same for single parents as for two-parent families. 'Full-time work' means, for the purpose of this benefit, work of at least 30 hours a week for two-parent families or 24 hours a week for one-parent families.

	Existing weekly level £	Proposed weekly level £
Family income supplement:		
Prescribed amount for family with one child (income below which FIS is payable)	56·00	67·00
Increase in prescribed amount for each additional child	4·50	7·00
Maximum weekly amount for a one-child family	13·50	17·00
Increase in maximum amount for each additional child	1·00	1·50

Main War Pensions

War pensions are payable to people disabled as a result of service in the armed forces, to people

disabled from injuries received in the Merchant Navy or Civil Defence during wartime, or to civilians injured by enemy action.

	Existing weekly rate £	Proposed weekly rate £
Disablement benefits		
Disablement pension for private at 100 per cent rate	38·00	44·30
Unemployability allowances:		
Personal allowance	24·70	28·80
Wife or other adult dependant	14·00	16·30
Child	7·10	7·50
Comforts allowance		
Higher rate	6·60	7·70
Lower rate	3·30	3·85
Allowance for lower standard of occupation (maximum)	15·20	17·70
Constant attendance allowance		
Special maximum	30·40	35·40
Normal maximum	15·20	17·70
Age allowance with assessments of:		
40 and 50 per cent	2·65	3·10
Over 50 and not exceeding 70 per cent	4·10	4·80
Over 70 and not exceeding 90 per cent	5·90	6·85
Over 90 per cent	8·20	9·60
Exceptionally severe disablement allowance	15·20	17·70
Severe disablement occupational allowance	7·60	8·85
Clothing allowance (per year)		
Higher rate	51·00	59·00
Lower rate	32·00	37·00
Death benefits		
Widows' pension (private's widow)	30·20	35·30
Childless widow under 40	6·99	8·15
Rent allowance	11·50	13·40
Age allowance for elderly widows:		
Ages 65-69	2·95	3·45
Aged 70 and over	5·90	6·90
Adult orphans	23·30	27·15

DOCUMENTATION

Government and Administration

The Interception of Communications in Great Britain (see p 92). Cmnd 7873. HMSO, £1. IS8N 0 10 178730 8.

Statement of Changes in Immigration Rules (see p 93). HMSO, £2·25. ISBN 0 10 239480 6.

External Affairs and Defence

Agreement between ... [Britain] ... and ... China on Co-operation in the Fields of Education and Culture. Cmnd 7835. HMSO, 50p. ISBN 0 10 178350 7.

British Aid Statistics 1974-1978 (see p 105). HMSO, £6·50. ISBN 0 11 580219 3.

Inter-University Council for Higher Education Overseas. Chairman's Report to the Council for the Academic Year 1978-79. Available from the Inter-University Council for Higher Education Overseas, 90-91 Tottenham Court Road, London W1P 0DT.

Overseas Development Administration. Report on Research and Development 1979. HMSO, £3·75. ISBN 0 11 580222 3.

Defence in the 1980s. Statement on the Defence Estimates (see p 96). Vol I, Cmnd 7826-I. HMSO, £4·50. ISBN 0 10 178260 8. Vol II, Cmnd 7826-II. HMSO, £4. ISBN 0 10 178261 6.

Economic and Scientific Affairs

Financial Statement and Budget Report 1980-81 (see p 112). HMSO, £3·25. ISBN 0 10 250080 0.

The Government's Expenditure Plans 1980-81 to 1983-84 (see p 123). Cmnd 7841. HMSO, £6·25. ISBN 0 10 178410 4.

Supply Estimates 1980-81 (see pp 112 and 123). Cmnd 7869. HMSO, £4. ISBN 0 10 178690 5.

Monetary Control (see p 131). Cmnd 7858. HMSO, £2·50. ISBN 0 10 178580 1.

Review of Enforcement Powers of Inland Revenue and Customs and Excise. In the course of a parliamentary reply (*Hansard*, Vol 797, No 128, Part 1, written answers, cols 700-1) on 28 February, the Minister of State at the Treasury, Mr Peter Rees, announced that the Government would be setting up an independent committee to review the enforcement powers of the Inland Revenue and the Customs and Excise. The committee would be asked 'to weigh the need to ensure compliance with the law against the need to avoid excessive burdens on taxpayers'. The precise terms of reference, the name of the Chairman and members and arrangements for submitting evidence would be announced later.

Double Taxation – United States (see pp 81-2). The double taxation convention with the United States, which was signed in London in 1975, and the three supplementary protocols, signed in London in 1976, 1977 and 1979, were ratified by the exchange of instruments in Washington on 25 March. The convention, as amended by the protocols, will enter into force on 25 April. Foreign and Commonwealth Office press release, 25.3.80.

National Debt Office and Public Works Loan Board. The Financial Secretary to the Treasury, Mr Nigel Lawson, announced in a parliamentary reply on 25 March (*Hansard*, Vol 981, No 147, written answers, col 517) that the National Debt Office and the Public Works Loan Board would be merged on 1 April 1980 to form a new department to be called the National Investment and Loans Office. This department would carry out work involved in dealing with the functions of the National Debt Commissioners, the Public Works Loans Commissioners and the Pensions Commutation Board. The functions of the National Debt Office, the Public Works Loan Board and the Pensions Commutation Board would be unaffected. This was an administrative merger designed in the context of the cuts announced for Civil Service manpower. Together with other internal measures it was expected to result in staff savings of some 22 per cent. The National Investment and Loans Office would be under the control of a director who would serve both as Secretary

to the Public Works Loan 8oard and Comptroller General of the National Debt Office.

Public Works Loan Board. 104th Annual Report 1978-79. HMSO, £1·25. IS8N 0 11 630686 6.

Health and Safety Commission Report 1978-79. HMSO, £1·75. ISBN 0 11 883257 3.

Health and Safety. Industrial Air Pollution 1978. Annual Report of HM Alkali and Clean Air Inspectorate. HMSO, £2·50. ISBN 0 11 883303 0.

Review Body on Top Salaries. Report No 13: Ministers of the Crown and Members of Parliament. Cmnd 7825. HMSO, £2·25. ISBN 0 10 178250 0.

Standing Commission on Pay Comparability – Report No 4: Professions Supplementary to Medicine. Cmnd 7850. HMSO, £2·75. IS8N 0 10 178500 3.
Report No 5: British Waterways Board Salaried Staffs. Cmnd 7851. HMSO, £2. ISBN 0 10 178510 0.
Report No 6: Municipal Airport Manual Workers. Cmnd 7852. HMSO, £1·75. ISBN 0 10 178520 8.

Companies Registration and Business Names: Proposals for reducing the functions of the Department of Trade. The Registry of 8usiness Names maintains a central register of business names and of proprietors' names and addresses. The information, however, is not complete and registration does not imply either government approval or the sole right to use a particular business name. The Government has concluded that the maintenance of such a central register can no longer be justified and the consultative document invites comment on alternative measures to assist the public to ascertain the ownership of businesses. Comments have been invited by 30 June 1980 with a view to legislation in the 19B0-81 parliamentary session. Available free from Companies Registration Office, Room 3.4B, Crown Way, Maindy, Cardiff.

Provision of Small Industrial Premises (see p 134). Prepared by Coopers and Lybrand and Drivers Jonas for the Department of Industry. Available from the Department of Trade (Victoria Street) Library, Room LG 30, 1 Victoria Street, London SW1H 0ET. £25.

Offshore Safety. Report of the Committee (Chairman Dr J.H. Burgoyne). Cmnd 7866. HMSO, £6·50. ISBN 0 10 17B660 3.

Gas. COI, No 32/FSI/80.

Multinational Arrangements for the Nuclear Fuel Cycle. Energy Paper Number 43. HMSO, £4. ISBN 0 11 410799 8.

Road Accidents Great Britain 1978. HMSO, £4·50. ISBN 0 11 550420 6.

The Standing Advisory Committee on Trunk Road Assessment: Trunk Road Proposals – A Comprehensive Framework for Appraisal. Department of Transport. HMSO, £4·50. IS8N 0 11 550515 6.

The Inner London Letter Post. A report by the Monopolies and Mergers Commission. HMSO, £4. ISBN 0 10 251580 8.

The Natural Environment Research Council Report for 1978-79. HMSO, £5·25. ISBN 0 10 245280 6.

Department of Health and Social Security Research and Development Report and Handbook 1978-79. HMSO, £5·50. IS8N 0 11 320268 7.

R & D for Public Purchasing. A report by the Advisory Council for Applied Research and Development. HMSO, £2·50. ISBN 0 11 630815 X.

Biotechnology (see p 13). Report of a joint working party of the Advisory Council for Applied Research and Development, the Advisory Board for the Research Councils and the Royal Society. HMSO, £3. ISBN 0 11 630816 8.

The Challenge of the Chip. By W.H. Mayall. Science Museum. HMSO, £1·25. IS8N 0 11 290330 4.

Microprocessors. COI. No 46/FSI/80.

Metal-Working Machine Tools. COI, No48/FSI/80.

Prestel: Britain's Public Viewdata Service. COI. No 34/Factel/B0.

Digest of Environmental Pollution Statistics. No 2, 1979. HMSO, £5·25. ISBN 0 11 751433 0.

The United Kingdom Environment 1979: Progress of Pollution Control. Concludes that for atmospheric and freshwater pollution, the trend is one of steady improvement as regards the main pollutants that have been of concern in the past. There are no immediate causes for alarm over the state of coastal waters and estuaries and of the marine environment. The report recognises that newer problems are more difficult to control and shows the need for careful monitoring and research. Department of the Environment Pollution Paper No 16. HMSO, £2. ISBN 0 11 751457 8.

Lead and Health. The Report of a DHSS Working Party on Lead in the Environment. Makes recommendations to the Government and industry to take steps by which emissions of lead into the air, whether from the use of leaded petrol or other sources, are progressively reduced. This action must not lessen the priority which must continue to be given to reducing the opportunities for ingestion of lead from old paint and similar sources and to controlling the lead content of some tap waters. HMSO, £4·50. ISBN 0 11 320728 X.

Social and Cultural Affairs

Report of the Children and Young Persons Review Group. Report of the committee set up to review legislation and services relating to the care and treatment of children and young persons in Northern Ireland. In making recommendations on care and protection, the control of delinquent behaviour and the probation service, the committee stresses that the essential features of its proposals are prevention and co-ordination. HMSO, Belfast, £2·25. ISBN 0 337 07200 0.

Fire Statistics United Kingdom 1978. Available from S3 Division, Home Office, 50 Queen Anne's Gate, London SW1H 9AT. £4·25.

Incomes During Initial Sickness: A New Strategy. A Green Paper setting out the Government's proposals for employers to provide sick-pay during the early weeks of illness. Cmnd 7864. HMSO, £2. ISBN 0 10 178640 9.

Aspects of Secondary Education in England: supplementary information on mathematics. A report by HM Inspectors containing information on mathematics teaching and recommending priorities for improvement. HMSO, £1·90. ISBN 0 11 270464 6.

© *Crown Copyright 1980*

Printed in England by Brown Knight & Truscott Ltd
and Published by
HER MAJESTY'S STATIONERY OFFICE
90p net

Annual subscription including indices and postage £14.22

H2705 Dd 8034325 K8 APRIL/80 1976
ISBN 0 11 721730 1 Vol. 10 No. 4
ISSN 0039—6214